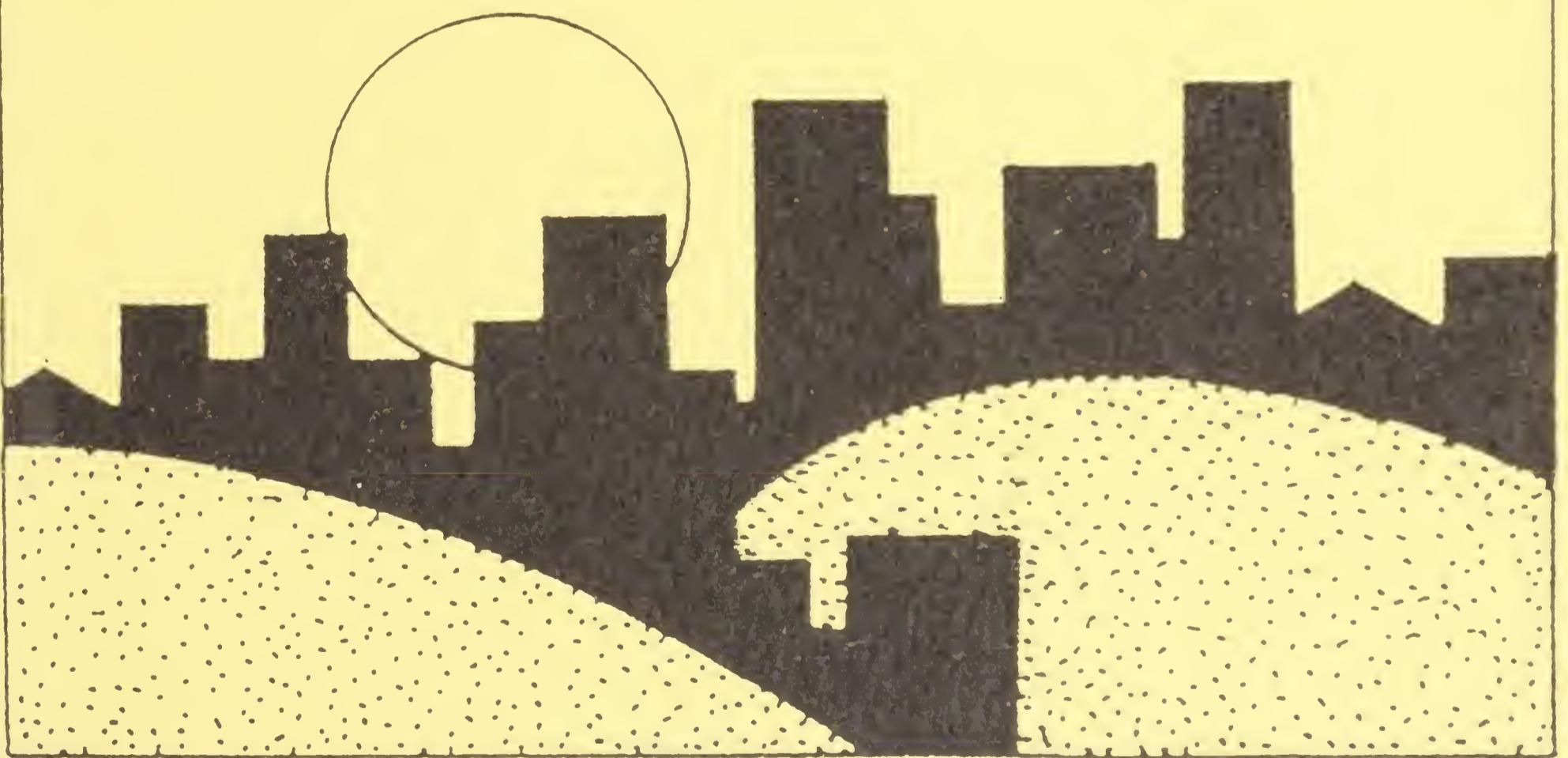


Scorned Hazards of Urban Land Markets:
‘The Carnival of Excess’ in
Late-Nineteenth Century Melbourne

John Weaver

Urban Research Program
Working Paper No.43
November 1994



URBAN RESEARCH PROGRAM
RESEARCH SCHOOL OF SOCIAL SCIENCES
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SCORNED HAZARDS OF URBAN LAND MARKETS: 'THE CARNIVAL OF EXCESS' IN LATE-NINETEENTH CENTURY MELBOURNE*

John C. Weaver**

'The Rise and Fall of Marvellous Melbourne'—the title of Graeme Davison's chronicle of a late-nineteenth century boom and bust—is a settled expression for a renowned event in Australian history.¹ Before Davison's account, the sequence of stunning growth and collapse caught Asa Briggs' attention. In *Victorian Cities*, Briggs—whose essays sought to portray Victorian civic culture in Manchester, Leeds, Birmingham, Middlesbrough, Melbourne, and London—proposed that the depression of the early 1890s altered Melbourne's personality. Once bustling, confident, and brash, Melbourne beheld such a grim reversal of family fortunes and civic works that, in his estimation, it never regained a comparable reckless belief in unfettered growth.² Underlying the shift in mood was an economic fluctuation of grand proportions.

Although well-known, it is useful to review the trajectory of collapse. A slow down in real estate transactions in late 1888 is the conventional beginning. Starting in 1889 higher than usual numbers of builders, estate agents, and speculators failed. This continued through to 1894. Financial institutions of all

* The research for this paper was supported by Australian National University and the Social Sciences and Humanities Research Council of Canada. I would like to thank Janine Bush, my research assistant at ANU, and to express my appreciation for the assistance I received from the staff at The Noel Butlin Archives Centre, the University of Melbourne Archives, the Victoria Public Record Office, and the La Trobe Library. The Urban Research Unit at ANU provided a hospitable and stimulating environment in which to work.

** McMaster University

¹ Graeme Davison, *The Rise and Fall of Marvellous Melbourne* (Melbourne: University of Melbourne Press, 1978).

² Asa Briggs, *Victorian Cities* (Pelican Books, 1971), 286-7. First published in 1963.

sorts were implicated in the real estate market. An alarming number of building societies and land mortgage banks failed in 1891 and 1892, and a wave of reorganisation among major banks transpired in 1893. As an organising centre for pastoral and mining ventures, Melbourne was integrated into London finance; international investment and population movements affected the colonial city.³ Unquestionably, its rise and fall was linked to the international business cycle of the late-nineteenth century. Yet Melbourne's collapse was extreme.

One explanation for this is that the excesses of a boom necessitated a severe correction. Taking aim at what he felt were such 'mechanistic' accounts of the great financial failure of 1893, A.R. Hall argued that the most catastrophic phase of the bust, which culminated in the reorganisation of banks in 1893, originated in a lack of confidence that might have been averted. Hall proposed that the government of Victoria could have saved the situation in March 1893 by declaring all bank notes legal tender, thereby helping financial institutions to meet demands from depositors.⁴ With that expansion of money and official vote of confidence, the fundamental solidity of Melbourne's economy could have prevailed. As a corollary, Hall suggested that the city's land boom was essentially justified.⁵ 'There was a firm basis for much of the behaviour which

³ N.G. Butlin, Investment in Australian Economic Development, 1861-1900 (Cambridge: At the University Press, 1964), 187-8.

⁴ Hall is critical of Henry Gyles Turner's history of Victoria for its moralism about the excesses of the boom, but Turner's account of the rise and fall also includes a discussion of how the government of New South Wales saved Sydney by declaring bank notes legal tender. See Henry Gyles Turner, A History of the Colony of Victoria from its Discovery to its Absorption into the Commonwealth of Victoria in Two Volumes, vol.2 (London: Longman, Green, and Co., 1904), 314.

⁵ A.R. Hall, The Stock Exchange of Melbourne and the Victorian Economy (Canberra: Australian National University Press, 1968), 113-176. The dispute is well summarised by Graeme Davison. 'The degree to which the economic collapse of the early 'nineties is attributable to [a] pattern of extended investment in suburban development is still a matter contested by economic historians. On the one side [represented by S.J. Butlin] it is argued that the criteria for investment were not those of profitability, that the returns on some investments, particularly in services, were declining in the 'eighties, that borrowed capital was increasingly diverted into speculation; on the other (A.R. Hall), it has to be conceded

has subsequently come to be regarded as a demonstration of sheer optimism and extravagance.⁶ How sound was the city's economy? Could wise action late in the day have saved it from a disaster? Was the real estate such a good investment? That such questions are raised does not mean they can be answered. This paper proposes, however, that an insufficient understanding of land as an investment and the scope of speculation in urban and suburban property helped push Melbourne into a crisis. Swift government action might have had little effect, because the want of confidence in Victorian banking was more than psychologically based.⁷ Financial institutions had entangled themselves in a web of loans that tied them to the building cycle; depositors who withdrew reacted rationally to revelations that many financial institutions—not merely a corrupt few—had heaps of over-valued securities.⁸

A building cycle is a well-known rising and falling wave of investment with enormous amplitude and remarkable regularity.⁹ Peaks have occurred at

that many service enterprises, particularly those enjoying monopolies, were showing healthy profits at least until 1889-90. Nevertheless, whether as cause or consequence, it is indisputable that the depression of the early 'nineties saw suburban services straightened in just those areas where they had been fully extended in the late 'eighties.' See Davison, 'Public Utilities and the Expansion of Melbourne in the 1880s', Australian Economic History Review, vol.10 (September, 1970), 187.

⁶ Hall, The Stock Exchange of Melbourne, 129.

⁷ Hall's contrast between those who explained the crash as a product of the excesses of the boom and those who stressed the possibility of averting a crisis by a strong government action to restore confidence parallels differences among classic statements on business-cycle. Alfred Marshall advanced the idea that investment was primarily driven by psychological factors whereas Albert Aftalion articulated a masterful statement for the view that business cycles resulted from reasoning that nevertheless caused investors to overshoot equilibrium, causing booms and busts. For an old but very lucid account of these and other theories see Alvin Hansen, Business Cycles and National Income (New York: W.W. Norton & Company, 1951), 259-76 (on theories of confidence and credit) and 347-76 (on theories dealing with the reality overproduction).

⁸ Henry Gyles Turner maintained that the crisis began in 1888 when the insolvency schedules of three major real estate speculators revealed the unsoundness of the current land market. These schedules which were public information would also have disclosed who were the creditors. Henry Gyles Turner, A History of Victoria, 292.

⁹ Robert Aaron Gordon, Business Fluctuations (New York: Harper & Brothers, 1952), 209-11. Although both Hansen and Gordon wrote over forty years ago, they have a sense of history and a lucidity that still recommends them.

roughly twenty year intervals. Essentially, this cycle has resulted from imperfect information about the demand for real property and lags in the property industry that hinder quick adjustments.¹⁰ The broad objective of this paper is to re-examine the Melbourne building cycle by focusing on land as a commodity which poses valuation and liquidity problems. Beyond new narrative details, three contributions to the extensive literature on Melbourne's rise and fall are made in this discussion. First, the experience that banks in the United Kingdom, the United States, and Canada had with land as collateral will be considered in relation to practices in Victoria. Second, a discussion of failed land boomers will connect land speculation to the severity of the slump. Finally, the liquidation of real property will be analysed to explore what transpires in the depths and aftermath of a serious crisis.

Essentially, building cycles are traced through data on building material or building permits, but the following discussion considers investment in land as well as buildings. The deviations from a conventional abstraction in order to include land are readily explained and it is recognised too that there are good reasons based in the history of economic theory for treating land alone. Land is included with shelter and business blocks because it is fundamental to the fabrication of usable urban space. Its cost represents a significant portion of investment in all forms of urban space. Many of the individuals who invested in real property in the Melbourne boom assembled portfolios of rural land, city allotments, and land with buildings. In its guise as security, land has been intrinsic to financing speculative building ventures. As foundation material for city building and as an asset marshalled to procure borrowed capital for city building—and rural improvement schemes to increase its own carrying capacity—land is an unusual commodity. Land has also posed valuation problems and, compared to many other assets, lacks liquidity. Real property

¹⁰ Hansen, Business Cycles and National Income, 51.

shares these two problems with land, though the rental of built space can assist with valuation and with liquidity.

Building cycles have usually been documented with aggregate data. Largely by analysing official data, E.A. Boehm prepared a model economic history, dealing at length with the events of 1887 to 1897. Boehm wielded statist's reports and contemporary newspaper accounts to infer a great deal about the calculations of those who participated in the boom.¹¹ Along with Davison's history, his book remains an indispensable guide. It is possible, however, to get closer to participants in the Melbourne events. Extensive evidence—qualitative as well as quantitative—can track the building cycle, explain the city's slow recovery, and do so with close attention to participants.

Commentary on the Melbourne Ordeal

Some insights into Melbourne's rise and fall can be gleaned from participants and observers. Contemporaries immediately published assessments. Several Melbourne authors—bankers or accountants—larded these with affirmations of integrity, understandable in view of the revelations of misconduct that followed the collapse of certain financial institutions. Most contemporary analysts had a shallow understanding of the crisis and knew less about economic cycles generally. Writing in 1892, James Mirams, the manager of a failed building society who was later convicted of fraud, understandably rejected the idea that a land boom led to the collapse. Instead, as a protectionist, he blamed Victoria's balance of payments deficit and a British engineered contraction of credit.¹² Why had the colony a balance of trade problem and what caused the contraction of credit, a contraction which pushed building

¹¹ E.A. Boehm, Prosperity and Depression in Australia, 1887-1897 (Oxford: At the Clarendon Press, 1971).

¹² James Mirams, The Present Depression: Its Causes and Cure (Melbourne: Hanson & Co., 1892), 10-15.

societies like his to the wall? Maurice Brodzky, brother-in-law of a major real estate speculator and editor of the muckraking journal *Table Talk* alleged that speculations by the likes of Mirams undermined the credit system.¹³

Swindles occurred, particularly during the onset of the crisis when a few institutional lenders practiced chicanery to stay alive, but more basic to the origins of trouble were errors in judgment about the supply and demand as well as the valuation and liquidity of urban space. Henry Gyles Turner, General Manager of the Commercial Bank during the boom and bust, ascribed the collapse to excessive government borrowing, reckless personal spending by business leaders, dishonoured contracts, and a strike by dockworkers.¹⁴ He too wrote of ‘insidious wiles and brazen mendacity’.¹⁵ An engaging author who submitted shrewd observations and a many-sided account of the collapse, Turner was disingenuous by omission. In the 1880s, his bank lent to speculators whom he condemned later for lavish living and ungentlemanly conduct. By reciting details and proposing a ‘carnival of excess’, he avoided recanting his trust in land as security.

On the eve of the depression of the 1930s, George Meudell, an accountant who had worked for the biggest land boomer of the 1880s, Benjamin Fink, scattered facts and opinions in a breezy memoir. Like Brodzky, he blamed speculators. Meudell often mentioned that shoddy land valuation practices made speculators possible. If only the general managers of failed banks, he wrote, ‘had kept clowns to make fun of valuations of city property, made by the

¹³ This statement about *Table Talk* may fairly express the tone of its many stories on the collapse, but within its numerous articles many explanations for the boom and bust are provided. It really is much more than a source for details on the improper conduct by the officers of financial institutions. S.J. Butlin assembled a collection of photocopies of articles on banking that appeared in *Table Talk* and my references to it are taken from his papers at the Noel Butlin Archives Centre, incorporating the Australian National University Archives of Business and Labour, at Australian National University (henceforth ANU).

¹⁴ Henry Gyles Turner, *A History of the Colony of Victoria from its Absorption into the Commonwealth of Australia* (London: Longmans, Green, and Co., 1904), 264-304.

¹⁵ *Ibid.*, 291.

old-fashioned auctioneers and valuators of Melbourne, their banks would never have closed their doors.¹⁶ Turner could not concede this, for he had obstinately championed land as good security for bank loans.

Astute *post mortems* came from outside Melbourne. Two will be cited. In a series of articles for the *Sydney Morning Herald*, collected in a pamphlet, Edward Pulsford analysed the crisis using trade and investment data; these showed Victoria's borrowing in the 1880s surpassed that of other Australian colonies. While Pulsford regarded debt as no evil, he supposed that the proportion held abroad was a problem. Drawing a distinction between the wealth *in* a country and the wealth *of* a country, he argued that British investors had poured wealth into Victoria, but the colony could not meet an urgent repayment schedule.¹⁷ The immediate causes of the crisis were exogenous: a curtailment of British credit and demands for repayment.

Pulsford did more than refine Miram's explanation. In his estimation, an incautious use of statistics helped entice UK funds. Comparing statistics to edged tools that required care and knowledge, he stated that Australasian statistics had hidden assumptions and were misused to give 'very exaggerated ideas on the development... of these colonies.'¹⁸ The one comparative handbook on world economies in the 1880s and 1890s was by M.G. Mulhall. It depicted a remarkable growth of wealth in Australia. Pulsford warned that much of the increase was *in* but not *of* the colony; much of the wealth data embodied real estate assessments. Mulhall reported the surprising information that the per capita wealth of the UK in 1890 was £247, £210 in the US, £196 in Canada, and £370 in Australia. But sixty to seventy per cent of Australia's

¹⁶ George Meudell, *The Pleasant Career of a Spendthrift* (London: George Routledge & Sons, 1929), 7. Additional criticisms of valuators appear on pp. 19 and 58.

¹⁷ Edward Pulsford, *Notes on Capital and Finance in Australasia* (Sydney: Edwards, Dunlop & Co., 1892), 27-9.

¹⁸ Pulsford, *Notes on Capital and Finance*, 29.

wealth was in real estate whose value, Pulsford stressed, fluctuated enormously. Like Meudell, he placed his finger on the problem of real estate valuation.¹⁹

Soon after the banking crisis phase of the crash, in the spring of 1893, the chief clerk for the British treasury asked one of his juniors, Arthur Peel, to report on the failure of Australian banks. Printed for internal use, Peel's well-known paper circulated widely. While he acknowledged that the banks were not responsible for the fall in commodity prices which embarrassed their clients, he scorned the securities banks had taken. Peel blamed Australian banks for their plight. His list of dubious securities included mining and tramway shares, city allotments, and pastoral properties. Banks, Peel explained, reaped great profits from pastoral accounts through commissions and exchange dealings. To secure pastoral business, they lent heavily to graziers. Peel approved of livestock or wool clips as security, for they were consumable, quickly liquidated if necessary. In tune with English banking principles, however, he rated land as unsound security, due to the variability of prices. Worse, banks had speculated in land and continued to prop up speculators after the initial signs of a faltering land market in 1889.²⁰

Alfred Marshall did not mention the Melbourne boom in his *Principles of Economics* (1890), but he described a state of affairs that could well have been inspired by events in Victoria. Marshall described a situation where 'a handful of colonists having assumed rights of perpetual property in vast tracts of rich land, are anxious to reap in their own generation its future fruits.' They accomplished this, he continued, by mortgaging their property to the old world 'at very high rates of interest'.²¹ Max Hirsch, writing for *Table Talk*, was aware of this discussion and cited it as authority to refute one of Turner's

¹⁹ Pulsford, Notes on Capital and Finance, 35.

²⁰ Arthur George Villiers Peel, The Australian Crisis of 1893 (London: Her Majesty's Stationery Office, 1893), 4-14.

²¹ Alfred Marshall, Principles of Economics (London: Macmillan and Co., 1898), 756.

lectures on the causes of the depression. Hirsch thought that Turner had wrongly minimised the responsibility of the financial institutions for the heavy private borrowing in Britain.²²

Writing in 1927 to warn Australians of the likelihood of another collapse, economic historian E.O.A. Shann, prepared a booklet about Melbourne's boom and bust. Although preoccupied with two exogenous causes of the business cycle—commodity prices and international credit—he included a synopsis of the land boom and its aftermath.²³ It is remarkable that he did not argue more emphatically that the crisis had some of its origin in the endogenous circumstances of city building, in the demand for urban space. External links were decisive for his commodity and credit argument, consequently he gave the impression that British lending to government and private sectors in Victoria had forced urban growth, had made available more capital than the economy could healthily absorb, and had made the land boomers possible. Conceiving of the land boom as unnatural and forced, he stopped short of examining the business decisions which influenced the investment demand schedule for urban space.²⁴

It is surprising that Shann failed to press further in his discussion of the land market, because both here and in *An Economic History of Australia* he slipped in a provocative and clever observation about land markets.²⁵ Extreme fluctuations in the price of land, he suggested, occur because of the absence of a

22 Table Talk, 13 May 1892.

23 Edward Shann, The Boom of 1890 - and Now (Sydney: The Cornstalk Press, 1927), 34.

24 The investment demand schedule may shift so that investors are willing to pay higher costs purely by reason of extravagant expectations. The propelling wave of optimism which cannot be justified on the basis of sound and close calculation is the source of this shift. Investment is based on expectations and Shann came very close to pinpointing those which were involved in the Melbourne boom.

25 Edward Shann, An Economic History of Australia (Cambridge: At the University Press, 1930), 311.

futures market.²⁶ Authors of models based on endogenous factors were interested in why investors in capital goods would over-shoot the mark in the boom phase and over-correct during the recession phase. In Shann's aside about the lack of a futures market and in the business cycle theories that accented endogenous explanations, there are leads into a discussion about land markets and the building cycle. However, Shann did not write in that vein. He was alerting Australians to the consequences of a fall in commodity prices, a vital concern in a staples exporting country. Still, it is a measure of the trauma of Melbourne's crash that he used it as a cautionary tale.

Briggs' claim that the collapse of the 1890s affected the personality of Melbourne is confirmed by the enduring interest of Melbournians in the benchmark event. For generations, the rise and fall have been palpable, unavoidably a part of the modern city. Calling attention to boom development, civic boosters have actually promoted Melbourne as one of the world's great Victorian cities. And so it is. A tram rider on the high streets of older suburbs can see the effects of boom and bust by reading the construction dates that, along with masonry urns, often adorn parapets on rows of shops. Along block after block, the years rumble by, through the 1870s and 1880s, then leap past

²⁶ It can be objected on at least three grounds that the absence of a futures market is an insubstantial proposition. First, land, it can be argued, is an asset which cannot, to any significant extent, be produced. Futures markets apply to commodities which are produced and for which the uncertainty of future production is a one cause of price fluctuations. Second, futures markets function only where large quantities of a graded commodity are traded. Is land capable of being sorted into a few well-defined grades of produce? Third, it might be said that land is now widely used as an appropriate form of security without a futures market. Consequently, such a market was not necessary to realise stability. There are responses to these objections. In the first place, Shann does not seem to be arguing that a futures market is feasible, only that it did not exist and, therefore, there could be no strong marketplace check exercised by sceptics. Second, can it be maintained that land in a certain sense is not produced? Urban allotments are produced and there is considerable standardisation in the property industry. In a more general way, cadastral mapping and land registration systems - the legal apparatus - produces land. Finally, the use of land as a more secure asset today is a result of many historical processes that have resulted - with some important exceptions - in greater prudence. Moreover, government regulation and planning affect production, smoothing out some extremes. As well, some jurisdictions have government and/or private mortgage insurance. In effect, the impossibility of futures market has forced the development of other measures and practices.

the turn-of-the century, leaving a gap of a decade. Of course, inquiring members of established families still scan Michael Cannon's *The Land Boomers* to locate rogue ancestors in his gallery of miscreants.²⁷

Published in 1966, Cannon's tales documented instances of insider loans and embezzlements affecting select clusters of allied land and banking companies.²⁸ Often relying on *Table Talk*, Cannon let muckraking stand as an interpretation. Critical of the hypocrisy of moral reformers and erstwhile philanthropists caught robbing innocent investors by sundry means, he ran with a lively story and skipped the fact that many heavy speculators were guileless and guiltless. Precisely this point was made in a perceptive review by E.A. Beever and R.D. Freeman.²⁹ More will be said about the backgrounds of land speculators later. Cannon's outrage centred on both the ease with which speculators carried out their schemes, the practices used to keep failing enterprises afloat from 1889 to 1892, and the loopholes they dexterously wriggled through when escaping penalties. He was right to suggest that Victoria's laws governing banking and company conduct were permissive. Meudell's and Pulsford's criticism of land valuation, Peel's distrust of land as security, Marshall insight into colonial capitalism, Shann's observation about the lack of a futures market for land, and Cannon's scorn for indulgent laws all converge at a leading cause of Melbourne's exaggerated cycle. Victoria fostered risky connections between banking and land markets.

Economic historian E.A. Boehm was next to publish on the rise and fall, as part of a study of prosperity and depression in Australia from 1887 to 1897.

²⁷ This is not an exaggeration. At a University of Melbourne alumni function in Canberra, a lawyer from an established Melbourne family told me that his grandfather was mentioned by Cannon. In fact, he was.

²⁸ Michael Cannon, *The Land Boomers* (Melbourne: University of Melbourne Press, 1977). First printed in 1966.

²⁹ E.A. Beever and R.D. Freeman, 'Directors of Disaster?', *The Economic Record*, (March, 1967), 122.

His crisp account of Victoria's building boom and its liquidation was sophisticated. In his larger project, he demonstrated the force of outside influences on the Australian economy and the role of internal elements, fusing the contrasting explanations proposed by Hall. Boehm placed Australia in the London-based world economy. Among the local ingredients, he pointed to 'the full-blooded building boom in Melbourne' which arose from the urge for home ownership, population growth, speculative activities that exaggerated present and future demand for houses, and lags and inertia endemic to city-building industries.³⁰ Even so, why had investors by—say—1888 grossly miscalculated immediate and future demands?

Four years after this book appeared, R. Silberberg contributed the first of several innovative papers on the boom. His initial article showed how investors could have believed that superior profits awaited them in the suburban land market. In a sample of transactions from 1880 to 1892, he found rates of return exceeding those in alternative investments from 1882 to 1888. The average weighted return was nearly 35 per cent on an average investment period of just under four years. 'These returns were such as to suggest that land investment was a great deal more profitable than was necessary to compensate investors for the associated loss of liquidity.'³¹ It is far from settled, however, that investors recognised they were relinquishing liquidity. During the boom, the liquidity problem had been ignored and even denied in good faith by influential business leaders. Thus, though prospective investors may have witnessed seductive rates of return—trade journals gave them roughly the same results as Silberberg's

³⁰ Boehm, Prosperity and Depression, 152.

³¹ R. Silberberg, 'Rates of Return on Melbourne Land Investment, 1880-92', The Economic Record (June, 1975), 217. Table Talk made occasional references to the profits reaped by 'orchardists', 'market gardeners', and early speculators. Table Talk, 23 September and 30 December 1892.

later research³²—they were inadequately informed about land as an investment. Part of the explanation for the disaster is the state of information in the Melbourne land market.

In 1978, Graeme Davison covered the events of the rise and fall from the perspective of urban history, providing chronological sequence and, along with Boehm, giving substance to prior generalisations about the 'unnatural' rate of Melbourne's growth. Not only did he describe the city's financial, commercial, and industrial evolution, but demonstrated that the metropolitan region achieved a degree of low density settlement virtually unique among large cities. The construction of the houses, urban services, and public buildings produced a remarkable suburban spread, one whose development employed thousands. As growth slackened in 1888, contractors, carpenters, masons, and related trades suffered immediately. Davison associated the crisis with city building and accented special properties in Melbourne's spatial development.

The following account of Melbourne's building cycle accepts the uncommon features of the city's expansion and the laxity of Victoria's laws governing financial institutions. Indeed, the unfettered quality of the boom of the 1880s that made the Melbourne experience unusual also makes it suitable for an understanding of the building cycle and of land as a commodity. The fact that this city sprawled into surrounding rural lands, unrestrained by planning, prudent banking practices, or legislative restrictions on corporate conduct means that it offers an example of free enterprise and city building. Granted, the supply of urban space was influenced by government activity, though not regulation. Throughout the 1880s, the government-operated railway system assisted private land syndicates. In every respect, the market for urban space was unobstructed.

³² University of Melbourne Archives (henceforth UMA), J.R. Buxton Pty. Ltd., Estate Sale Ledgers, 1887-1892, clipping inserted, The Land and Property Record, 25 April 1888. The article compared values in 1880 with those of 1887-8.

Melbourne's experiment—for such it was—advanced, unchecked by the voluntary restraints of a circumspect business community and unrestrained by government supervision of business. In recent articles, David Merritt has considered the problem of a lack of prudential standards and weighed the pros and cons of more forceful government regulations. On balance, he maintains that higher standards would have had 'negative impacts on the growth of income through lower levels of financial intermediation and a diminished rate of capital formation.' Finding a silver lining, he credits the crash with instructing later bankers in more judicious conduct which meant that the banking system of the depression of the 1930s was stronger than it had been in the 1890s.³³ However, in favour of more stringent regulation, it can be pointed out that the Canadian banking system was more rigorously controlled with no discernable lack of capital formation. Moreover, the Melbourne crash did more than teach valuable lessons. It undermined enterprise and tied up capital for many years in assets that were difficult to liquidate.³⁴

Context, Culture, and Information

The urban boom of the 1880s was a prime instance of capital investment having seriously overshot 'the neighbourhood of equilibrium'. In this instance, the capital investment was for urban space. By urban space, we mean two things: first, raw land which had been converted from rural to urban allotments; second, built areas used for shelter or business. The many

³³ David T. Merrett, 'Australian Banking Practices and the Crisis of 1893', Australian Economic History Review, vol. 29 (March 1989), 83. Also see David T. Merrett, 'Preventing Bank Failure: Could the Commercial Bank of Australia have been saved by its peers in 1893?', Victorian Historical Journal, vol. 64 (October 1993), 139.

³⁴ It has also been argued that late Victorian booms in Adelaide and Melbourne accelerated the spread of water and sewer services and thus improved sanitation and health. 'The booms therefore may have touched off permanent changes in the quality of urban life.' See W.A. Sinclair, 'Urban Booms in Nineteenth-Century Australia: Adelaide and Melbourne', Journal of the Historical Society of South Australia, number 10 (1982), 12. Also see David Dunstan, 'Dirt and Disease', in Graeme Davison, David Dunstan and Chris McConville editors The Outcasts of Melbourne (Sydney: Allen & Unwin, 1985), 170.

particular reasons why investment in urban space—land and buildings—bolted ahead of current requirements may be compressed: the local business culture and the quality of information available to investors.

Melbourne's business culture evolved unorthodox inclinations within the innovative Australasian colonies. As a new settlement region, Australia shared with the United States and Canada the problem of attracting capital. Australian colonies faced the additional complication of being closely scrutinised by the colonial office which discouraged departure from conservative English business practices.³⁵ Tight effective control, however, was attenuated by lags in communication. Experiments became accomplished facts before London could disallow them. To meet their needs, merchants and pastoralists successfully embarked on financial modifications that violated English practice. The lending on security of a future wool clip pioneered in the early 1840s is well known, but as Peel suggested this oddity entailed less risk than lending on land. Wool and sheep can be consumed. There were other novel practices.

By the 1830s, private lenders and banks were doing two things that English ones could not do—though many American ones could, sometimes with calamitous results.³⁶ First, they transgressed and then changed the law against usury. In short, they charged higher rates of interest than permitted in England.³⁷ That made colonial investments attractive. Second, banks extended

³⁵ Imperial supervision of Australia was more enduring than that for Canada. The control over crown lands is a notable case. See Peter Burroughs, Britain and Australia, 1831-1855: A Study in Imperial Relations and Crown Lands Administration (Oxford: Clarendon Press, 1967), 373.

³⁶ For an account of the elimination of laws against usury in the United States see Morton Horwitz, The Transformation of American law, 1780-1860 (Cambridge, Massachusetts: Harvard University Press, 1977), 237-45. An 1817-1819 land boom in the United States combined with the launching of numerous new banks, many of them formed primarily to profit from land speculation, ended in a serious financial crisis. See Daniel Feller, The Public Lands in Jacksonian Politics (Madison: The University of Wisconsin Press, 1984), 18-22. Charles Sellers, The Market Revolution, 1815-1846 (New York: Oxford University Press, 1991), 132-8.

³⁷ For an account of the practices of Australian lenders prior to 1833 and also of the reasons adduced by the Supreme Court of New South Wales to condone their evasions of English

their business from discounting commercial paper to lending on the security of real property. Higher colonial interest rates were an important innovation, but the eruption of institutional lending on landed security was an even more critically important change.

The banks' involvement with land had a complicated history, because by the late 1860s—when widespread and illegal practices were exposed and discussed—banks operated under British charters or colonial charters and acts. Drafted at different times, these bore various stipulations about lending on the security of a mortgage; moreover, banks which were barred from this business often engaged in it. Founded in 1854, the Bank of Victoria, for example, could not lend money on security of land, though it could seize real property and sell the same to satisfy debts.³⁸ Banks so debarred from mortgage lending penetrated the business by claiming they were covering overdrafts and taking deeds later as security.³⁹ This sly practice received a check when a debtor refused to pay the National Bank in South Australia, alleging that the bank had made an illegal contract by accepting land as security. In 1868, the bank lost a suit against the debtor.⁴⁰ Conservative commentators insisted prohibition was warranted, for banks should only lend on marketable securities and land was sometimes inconvertible.

Banks continued to lend on the security of land after *National Bank of Australasia v. Cherry* even when charters or banking acts prohibited it. By covering overdrafts and taking deeds as collateral, banks persistently evaded the

usury law see Macdonald v. Levy (1833) in J. Gordon Legge, Selection of Supreme Court Cases in New South Wales (Sydney: Charles Potter, 1862), 39-64.

³⁸ Travers Adamson editor, Acts and Ordinances in Force in Victoria (Melbourne: Government Printer, 1855), 35-42.

³⁹ Wyatt et al editors, Supreme Court of Victoria, vol. I, Bank of Victoria v. Cozens, 93-5.

⁴⁰ The South Australian Law Reports; Reports of cases Argued and Determined in the Supreme Court of South Australia, vol. II (Adelaide: Andrews, Thomas and Clarke, Printers, 1868), National Bank of Australasia v. Cherry and Others, Assignees of S. White, 212-37.

prohibition. Additionally, the legal entanglement of financial institutions in land markets had accelerated in Victoria due to an 1864 companies act which allowed financial institutions incorporating under it 'to lend on land and take a security coincident with the advance.'⁴¹ Meanwhile, directors of banks that could not legally lend on the security of real property lobbied for change.⁴² Shareholders of restricted banks debated whether to ignore the ban.⁴³ Some relished the profits of the illegal business; others warned of the risks.

Concurrently, building societies shed procedures originated when they were mutual benefit societies. Gradually, after mid-century, they emerged as complete lending enterprises. They too pressed hard against restrictions. In the case of more aggressive ones, for example, the legislated limits on loans to paid up capital and the percentage of a property's value that could be lent were ignored. Then there were the land mortgage banks which also lent on real estate. One of the first, the Land Mortgage Bank of Victoria founded in 1864, could not lend beyond fifty per cent of a valuation, but it apparently violated the rule and in 1876 a few shareholders wanted to inflate the official limit to seventy-five per cent. Banks clearly had competition in an expanding field. Mortgage lending flourished in the 1860s and 1870s. Melbourne was growing and the introduction of rural land selection spawned agriculturalists who, as future freeholders, would seek capital for improvements. In an atmosphere of growth and prosperity, against a backdrop of prior innovations, an old-country banking precaution was disdained. At the same time, as Silberberg pointed out, 'the rise to dominance of the institutional lender created a more organised, and

⁴¹ Boehm, Prosperity and Depression, 220.

⁴² ANU, S.J. Butlin Collection, item 757, Banks and Loans on Security of Land and Ships, The Mercury, 11 January 1869.

⁴³ ANU, S.J. Butlin Collection, item 757, The Argus, 30 December 1868. This clipping reported on a heated shareholders meeting of the Bank of Victoria.

integrated, market for [mortgage] funds.⁴⁴ Integration increased while participants rebuffed arguments about the liquidity risk. A great new engine for manufacturing credit in the city had been assembled. Formal inquiry at the time stressed only its merits.

Near the peak of the boom, in 1887, a Victorian royal commission examined the colony's banking laws with the aim of standardisation. It focused on the reserve requirements for bank notes and the lingering illegality facing some banks that lent on land. The commission was chaired by land boomer Matthew Davies and one of the other six members was Henry Gyles Turner who favoured lending against landed security. Boehm is generous in his estimation of Turner's position, suggesting that, since Australian colonial banking had avoided the disasters which plagued American banking, Turner felt justified in supporting Australian practice.⁴⁵ Turner undoubtedly felt justified. The case that he was foolish for so feeling stands on more than hindsight. Most of the many bank failures in the United States and the few in Canada occurred because of links with real estate speculation. Of course, there had been bank failures in Australia after the crash of the land boom of the late 1830s. In Canada, a standardisation of banking laws had occurred in 1871 and it recognised the problems of real estate lending by prohibiting charted banks from indulging. The ban remained until 1953 when a government agency provided mortgage insurance.⁴⁶

With a leading banker like Turner, the head of one of the larger banks, approving publicly of lending on land, there was no check on real estate speculation. Competitors fell into line or risked a loss of business. It can be

⁴⁴ R. Silberberg, 'Institutional Investors in the Real Estate Mortgage Market in Victoria in the 1880s', Australian Economic History Review, 18 (September, 1978), 164.

⁴⁵ Boehm, Prosperity and Depression, 222-23.

⁴⁶ Michael Bliss, Northern Enterprise: Five Centuries of Canadian Business (Toronto: McClelland and Stewart, 1987), 268-9; Michael Doucet and John Weaver, Housing the North American City (Montreal: McGill-Queen's University Press, 1991), 277-8.

argued too that the asset quality of lending institutions deteriorated because of the unsettled and bustling character of Victoria: accounting skills were scarce, lenders seldom found clients with long business histories, and the environmental characteristics of grazing and agriculture were not entirely understood.⁴⁷ Yet, uncertainty and lack of information can and should foster caution. Moreover, in the short history of European occupation, Australia had already experienced financial crises. Something else contributed to the embrace of high risks. In the realm of banking, a dominant strain in Australian business culture had defiantly chaffed against orthodoxy for a half century. The liquidity complication with land was not universally denied; however, the prevailing attitude, endorsed by government, placed more trust in colonial innovation than English conventions. Investors were thus ill-informed about a commodity that fed their dreams of riches.

As an investment, land has two celebrated risks: poor liquidity and the potential for inflated valuations. The state of land valuations epitomised the common information that misguided investors, though during the boom there were other spheres of faulty or incomplete information, such as financial institutions lending to their directors without having to make public disclosures, a practice barred in Canada.⁴⁸ On the surface, lenders looked as if they acted prudently by advancing money secured by real property merely to the value of 60 per cent of appraised value.⁴⁹ However, that margin of security may have been somewhat more generous than that granted in North America; more

⁴⁷ Merrett, 'Australian banking practice and the crisis of 1893', 72.

⁴⁸ Victoria, Report of the Select Committee of the Legislative Council on the Companies Act 1890 Further Amendment Bill; together with the Proceedings of the Committee, Minutes of Evidence, and Appendices (Melbourne: Robert S. Brain, Government Printer, 1896), 30.

⁴⁹ The high ratio of loan to valuation of property may have been promoted on the grounds that in the case of real property registered under the Torrens system there technically was no equity of redemption; in other words, the mortgagor had less difficulty foreclosing and the mortgagor's interests in the land were not diluted by those of others who may have purchased the equity of redemption (a second mortgage).

importantly, the appraised value in Victoria was based on market values. Without a process to determine the intrinsic worth of real property, its so-called value originated in dubious assessments. According to Mulhall's handbook, land values placed Australians ahead of Britons, Americans, and Canadians in *per capita* wealth; this report—if accepted widely—was dangerously misleading.

How were valuations prepared? Meudell claimed that in Melbourne 'revenue or rents were never used to test values.'⁵⁰ *Table Talk* affirmed that well-known valuers 'departed from capitalising the actual earning power of a property, and estimated to suit their clients.'⁵¹ In some English-speaking jurisdictions, assessors estimated the value of real property on the basis of annual potential rents factored out on the basis of a six per cent annual return on capital. Thus the annual rent would be multiplied by roughly fifteen to produce the value of the property. But since rents can fall drastically in a recession or depression, even this approach was imperfect. Nevertheless, it might have checked tampering with Melbourne's 'market values'. Another way was to value the property as if it were facing a forced realisation.⁵² This squarely acknowledged the liquidity problem.

Melbourne municipal tax rates were based on some form of assessment every three years⁵³, but judging from Mulhall's data these likely were inflated. And then there were market values. Most Melbourne real property sales were by auction; invariably promoters brought suburban allotments under the hammer. In the exhilarating days of the boom, auction houses organised

⁵⁰ Meudell, *The Pleasant Career of a Spendthrift*, 256.

⁵¹ *Table Talk*, 30 September 1892.

⁵² This was practiced in Ontario as a means of arriving at assessments for municipal taxation. It was also recommended by directors of the Freehold Assets Company in 1908. ANU, 12/1, David Fell and Company, Directors' Minute Books, 20 August 1908.

⁵³ *Table Talk*, 19 February 1892.

Saturday sales with a picnic atmosphere—free transportation and liquid refreshments—to loosen onlookers' inhibitions. To move things along, 'puffers' or 'dummies' pushed up the bidding.⁵⁴ If these agents of the vendor or auctioneer placed the winning bid, then at least a reserve price had been made. This dodge would not put coins in the pocket—it cost the promoter auction fees, though auctioneers would reduce commissions⁵⁵—but it might have fooled a lender into maintaining the vendor's overdraft coverage. It is difficult to believe, however, that colourful ploys made a big impact. Boom valuations could not have been inflated solely by liquor, puffing, sweetheart loans on inflated valuations, and false sales. Market valuations also originated in a structural feature of the land market.

Shann had detected something when he noted the absence of a futures market. The inability to arrange land sales for a future transfer date precluded direct involvement by doomsayers or 'bears' in the market. Not only do these players in commodity markets introduce caution and convey countervailing information to the market, but they sell short to 'bear' a market, increasing the number of contracts currently available, easing pressure on supply. Victorian land markets—in common with those elsewhere in capitalist communities—could only accommodate 'bulls' who demanded land immediately to meet growth in the city, or the assumption of continued growth. A market comprised entirely of 'bulls' will seek as quickly as possible to exploit what they see as a favourable situation. Acting quickly in expectation of big profits, they will heavily discount the future; they will accept both a premium price and the prospect of a heavy debt burden spread over many years. They do not anticipate carrying that burden far into the future, rather they contemplate a

⁵⁴ ANU, 24/1/3, Modern and Permanent Building Society (henceforth MPBS), Minute Books, 2 July 1886; 15 July 1886. Table Talk, 7 October 1892.

⁵⁵ La Trobe Library, Ms 9342, Yoe, Crossthwaite & Co., Correspondence 1882-9, H.S. Merrin to Malcolm McLean, 2 July 1888.

prompt and profitable exit. An 1896 royal commission on mortgage banking perceptively remarked that Victoria needed a 'scientific method of loaning on land.'⁵⁶

What Victoria had acquired were preconditions for a land bubble. Alterations to cautious English banking practices had allowed a differential in interest rates that helped draw British investors to the colony and promoted a cavalier attitude toward land as collateral. Australians borrowed more abroad on mortgage security than other primary producing areas.⁵⁷ Meanwhile, land valuation was biased toward unrealistic heights. Corporate evolution provided Melbourne with an array of competitive lending firms which, Silberberg submitted, increased the availability of mortgage funds and reduced their cost. The 'easy money' encouraged participants in the city-building process to produce new urban space.⁵⁸ Booms are enthusiasms floated on an expanding volume of bank credit. A look at several types of investors can put substance into that generalisation.

Participants

The ease of property transactions under the Torrens land registration system—the important South Australian contribution to many land markets—and the relaxation of prudence in Victorian lending made for tangles of land deals whose permutations defy précis. An examination of the insolvency schedules of failed speculators discloses complicated dealings and mixed portfolios, but they offer only a 'snapshot' taken at the moment of insolvency. Still, they show that many failed investors held allotments, terrace dwellings,

⁵⁶ Victoria, Report of the Royal Commission on State Banking (Melbourne: Robert S. Brain, 1895), v.

⁵⁷ J.D. Bailey, 'Australian Borrowing in Scotland in the Nineteenth Century', Economic History Review, second series, vol.12 (December, 1959), 268-79.

⁵⁸ R. Silberberg, 'The Melbourne Land Boom', Australian Economic History Review, 17 (September, 1977), 125.

stocks in land companies or utilities, and belonged to land investment syndicates. 'New companies', recalled Turner, 'were floated every week to give those who were too timid to speculate themselves an opportunity of sharing in the profitable speculations of the directors....There was no corner in the wide domain of finance that was not occupied by these companies.'⁵⁹ Investors with their involved holdings owed calls on capital to syndicates and were indebted to other individuals, banks, mortgage banks, and building societies. The latter are a good place to begin a discussion of participants. Melbourne had plenty; 34 in 1880 and 62 in the city and suburbs by 1888.⁶⁰ Histories of two—though they may be atypical—intimate how they participated in a building cycle.

Established in 1871, the Modern and Permanent Building Society (MPBS) boasted a name faithfully depicting evolution within finance capitalism. It was permanent and modern. Traditional building societies, originating out of mutual benefit associations, served a limited number of subscribers, demanded firm security, and terminated by plan after many subscribers had been enabled to buy a house.⁶¹ A later innovation, permanent societies functioned as on-going concerns.⁶² Gradually, the MPBS abolished the practices of mutual benefit societies. For example, in old societies, members bid against one another for access to the accumulated capital. They bid discount rates, effectively creating a variable rate of interest. In 1873, the MPBS altered its

⁵⁹ Turner, *A History of the Colony of Victoria*, 262-3.

⁶⁰ Silberberg, 'Institutional Investors in the Real Estate Mortgage Market', 166.

⁶¹ E.J. Cleary, *The Building Society Movement* (London: Elek Books, 1965); Butlin, *Investment in Australian Economic Development*, 254-5.

⁶² By the time that building societies first appeared in the Melbourne region in the mid-1850s, they were no longer fraternal, but neither were they permanent and businesslike. The Brighton Building Society met in a tavern and was a terminating society, but it seems to have lent to several parties often, suggesting it was assisting speculative builders. See Royal Historical Society of Victoria, Box 18, file 10, Brighton Building Society Minute Books, 8 March, 2 May, 5 September, 19 September 1854.

rules so that it could set tables of fixed rates of interest.⁶³ Four years later, the MPBS eliminated another relic by accepting applications for loans without charging membership fees.⁶⁴ Its directors wished to accommodate a lucrative money selling business. Another modern aspect was that the MPBS did not just rely on the savings of participants, something which had been permitted in Victoria since 1864.⁶⁵ It took in investment capital and borrowed from banks and from other building societies.

Within a year from its start in 1871, if not from the beginning, the MPBS lent to builders who erected homes in anticipation of eventual sales.⁶⁶ By 1880, it was even building a few shops and houses, acting as a speculative builder on its own account.⁶⁷ Based on an analysis of loan applications, Noel Butlin concluded that the MPBS 'came increasingly to deal with speculative builders, first in the form of small contractors [in the early 1880s]...and then, increasingly with large-scale contracting firms.'⁶⁸ In 1884, it commenced property development in the city core, paying the highest frontage costs recorded for the city. 'Modern Chambers', the building it erected on the costly Collins Street site, included a 'Property Auction Mart'.⁶⁹ At the seat of the MPBS, an aggressive institution, the practices and instruments of modern property sales were visibly in place. Moreover, the MPBS indirectly and directly added to the supply of urban space and it forwarded the sale of such space in a setting that stimulated a 'bull' market.

⁶³ ANU, 24/1/1, MPBS, Minute Books, 12 September 1872; 28 February 1873.

⁶⁴ ANU, 24/1/2, MPBS, Minute Books, 6 September 1877.

⁶⁵ Victoria, Report of the Select Committee, 69.

⁶⁶ ANU, 24/1/1, MPBS, Minute Books, entries for February 1872.

⁶⁷ ANU, 24/1/2, MPBS, 9 December 1880; 13 October 1881.

⁶⁸ Butlin, Investment in Australian Economic Development, 260.

⁶⁹ ANU, 24/1/3, MPBS, 5 June 1884; 27 January 1888.

In 1876–79, the MPBS had passed through an earlier crisis, foreclosing on many debtors, liquidating some properties, and reducing the interest paid on deposits, an action it coordinated with several other societies.⁷⁰ Business raced ahead from 1880 to 1888. Few mortgagors fell into arrears. Seventy per cent of loans between 1881 and 1891 were made on the security of residential property; the focus shifted from inner city suburbs to new suburbs, especially after 1885.⁷¹ Understandably, the company's valuator complained in 1887 about being overworked as the MPBS sifted through applications for loans totalling from £5000 to £10,000 weekly.⁷² One wonders about his diligence. The land boom diluted managerial talent in other ways, for the expansion in scale and number of lending institutions skimmed off experienced personnel from many institutions.⁷³ Although it is not clear what percentage of the valuation the MPBS would advance, a smaller and more prudent society lent between sixty and seventy percent of valuation.⁷⁴ Regardless of the standard practice, the boom entailed carelessness.

To accommodate brisk demand for loans to cover the purchases of urban space, the firm courted British investors early in 1886.⁷⁵ It returned to this well often, finding depositors and buyers for its debentures, notably in Scotland.⁷⁶ There was a feeling among the societies in late 1887 that the local

⁷⁰ ANU, 24/1/1, MPBS, Minute Books, 25 July 1876; 1 November 1877; 24/1/2, Minute Books, 25 July 1878; 17 January 1878; 23 January 1879; 12 June 1879; 16 October 1879.

⁷¹ Silberberg, 'Institutional Investors in the Real Estate Mortgage Market', 174 and 180.

⁷² ANU, 24/1/3, MPBS, Minute Books, 29 September 1887.

⁷³ Harry W. Nunn, Select Documents of the Nineteenth Century: A Two Volume Series, Vol.2 (Melbourne: National Australia Bank, 1988), 193.

⁷⁴ University of Melbourne Archives (henceforth UMA), Standard and Mutual Building Society (henceforth SMBS), Minute Books, 2 September 1891.

⁷⁵ ANU, 24/1/3, MPBS, 11 February 1886; 25 November 1886.

⁷⁶ ANU, 24/1/3, MPBS, Minute Books, 26 May 1887; 2 June 1887; 7 July 1887; 31 May 1888; 24 October 1889; 4 April 1888; 17 July 1890; 18 September 1890. For a general

banks were not opening their vaults for them, because the societies had poached on the banks' turf. However, banks routinely covered the MPBS's overdraughts which started to escalate out of control in early 1889.⁷⁷ By then, the collapse had started; overdraughts had grown as speculative builders defaulted, for their difficulties had begun months earlier and now they passed the consequences along to the MPBS. Interconnections rushed into during the real estate boom had produced a house of cards, for the MPBS had deposits with other societies and banks that were in trouble. When word spread in November 1891 that the City of Melbourne Building Society had suspended business, the MPBS removed its account from the Commercial Bank where both had done business.⁷⁸ The integration of financial services pointed out by Silberberg might have spread risk, had not so many individuals and institutions been involved in speculation. Now, integration propagated panic.

For the next two years, the MPBS subsisted by juggling securities in order to obtain bank loans. The dealings with the Bank of Australasia in July and September 1892 are suggestive. In July the bank advanced £20,000 on £60,000 security.⁷⁹ The margin of security was high, but it consisted of deeds that the MPBS held as security for loans that it had made. The security, therefore, was unregistered mortgages. Moreover, the deeds stayed in the possession of the MPBS's solicitor. An inverted pyramid of credit rested on these deeds and the building society tried to retain control of them. In September, the bank offered £100,000 on £500,000 security. This time it insisted on the transfer of deeds.⁸⁰ The proposal captured a remarkable fall in the worth of real property as

account of the transfer of Scottish funds to Australia see J.D. Bailey, 'Australian Borrowing in Scotland in the Nineteenth Century', 268-79.

⁷⁷ ANU, 24/1/3, MPBS, Minute Books, see entries for January 1889.

⁷⁸ ANU, 24/1/3, MPBS, 30 November 1891.

⁷⁹ ANU, 24/1/3, MPBS, Minute Books, 28 July 1892.

⁸⁰ ANU, 24/1/3, MPBS, 22 September 1892.

security. During the boom, lenders had advanced up to 70 per cent, now one which could still accept a risk granted merely 20 per cent of valuation.

Further difficulties at the MPBS illustrate what a liquidity crisis meant. Since late 1889, this society had been taking possession of mortgagors' properties. In September 1891, it realised it had accumulated a monumental problem, amounting to perhaps 1000 houses. To hold tenants, it had to cut rents and make repairs. An agent was hired to inspect and supervise properties.⁸¹ Directors hoped that some dwellings could be sold, but more houses were acquired by foreclosure. The society's housing stock grew to nearly 1200 units in 1895 (Figure 1). As its store of dwellings increased, the MPBS felt a pinch. It had accumulated properties that could not generate enough revenue to pay depositors who, from panic or need, were pulling out their money. The predicament was symptomatic of a failure to recognise the liquidity problem; institutional lenders had clutched at short term deposits while making longer-term loans which were backed by collateral that could not be sold in an emergency.

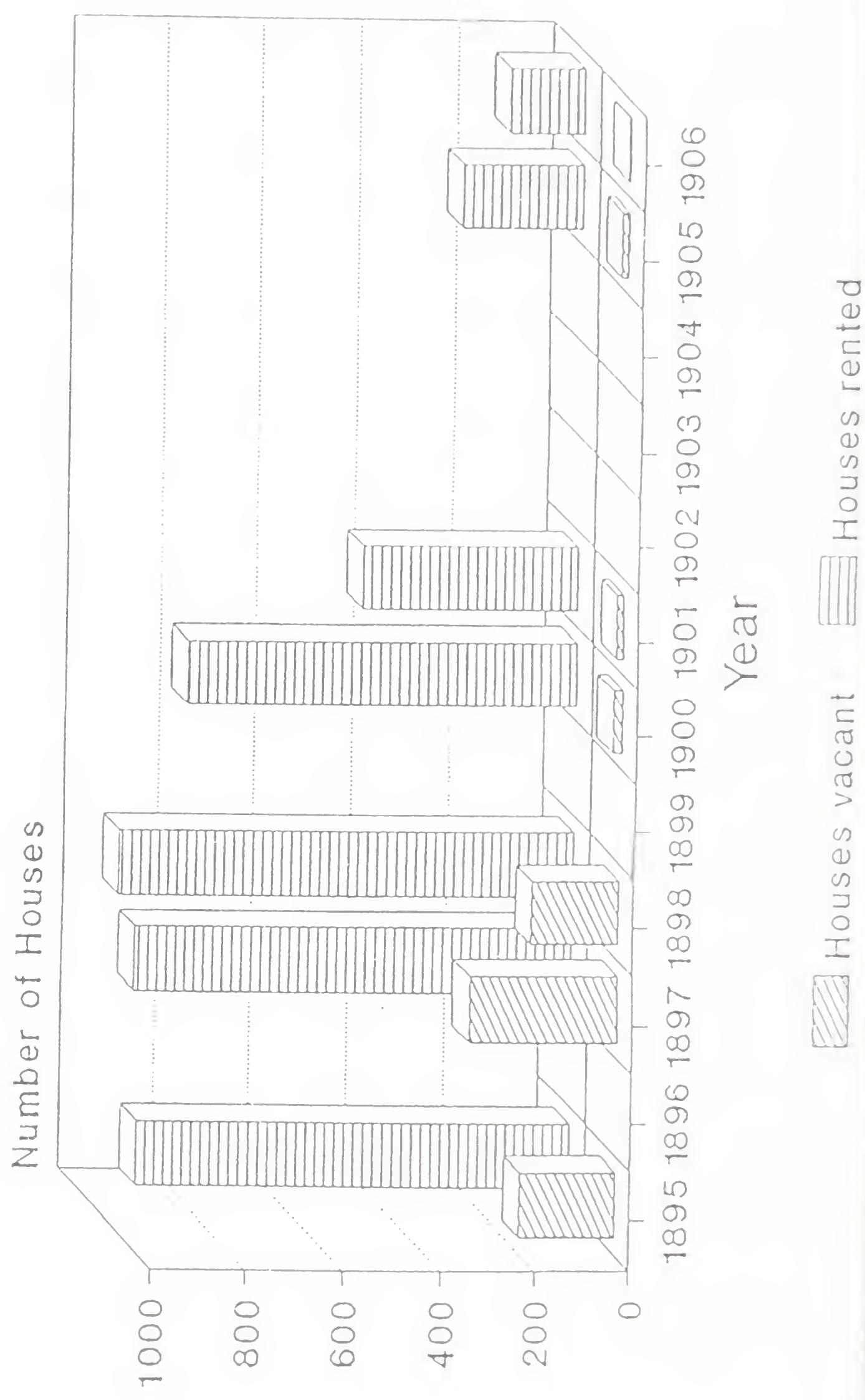
With diminished mortgage-payment revenue, a troublesome and unwanted rental business, and assets that could not be liquidated, the MPBS had to default on obligations. In May 1893, it persuaded creditors (depositors) to accept deposit receipts in lieu of cash and investors to take longer-term debentures. Many other institutions survived by adopting the same expedients, including five banks of issue during April and May 1893.⁸² For almost the next ten years, the MPBS functioned like an assets realisation company. It ceased making loans; in June 1893 it discontinued its practice of remaining open on pay nights for the convenience of depositors and borrowers.⁸³ In common with assets

⁸¹ ANU, 24/1/3, MPBS, 24/1/3, Minute Books, 17 September 1891.

⁸² Boehm, Prosperity and Depression, 300.

⁸³ ANU, 24/1/4, MPBS, Minute Books, 13 June 1895.

Figure 1 Houses Repossessed by the Modern and Permanent Building Society, 1895 to 1906



realisation companies that toiled in the rubble of insolvency, it struggled to dispose of urban space. It found no market from 1893 to 1897. Not one MPBS property was sold at an auction in January 1896.⁸⁴ After this failed test of the market, it contacted 84 real estate agents and asked them to submit tenders indicating the districts where they would like to collect rents for the MPBS and how much commission they would charge.⁸⁵ The agents were also to try to sell the houses. Real success began on this front in 1900 (Figure 1). Only in 1907, could the MPBS dispense with the services of the carpenter who had repaired its houses.⁸⁶

A similar pattern of events plagued the smaller and less aggressive Standard Mutual Building Society (SMBS). Unlike the MPBS, this society had averted direct participation in speculation, although it lent to builders, estate agents, and landlords.⁸⁷ During the boom, its weekly business amounted to half that of the MPBS. Like the MPBS, the SMBS first experienced a slow down in 1889, though loan approvals increased again in 1890 (Figure 2). Concurrent with the approvals, however, the SMBS had started to foreclose. Some 1890 foreclosures were against landlords who had held title to terrace units in working class suburbs. Those who first detected the over-built condition of the city had been building contractors, now landlords who let units to distressed labourers experienced a crisis.

Foreclosures had been rare prior to 1890. Their novelty was not only a consequence of prior good times, rather building societies were always reluctant to take over properties because they were not set up as property management concerns. So reluctant was the SMBS that, while it foreclosed on

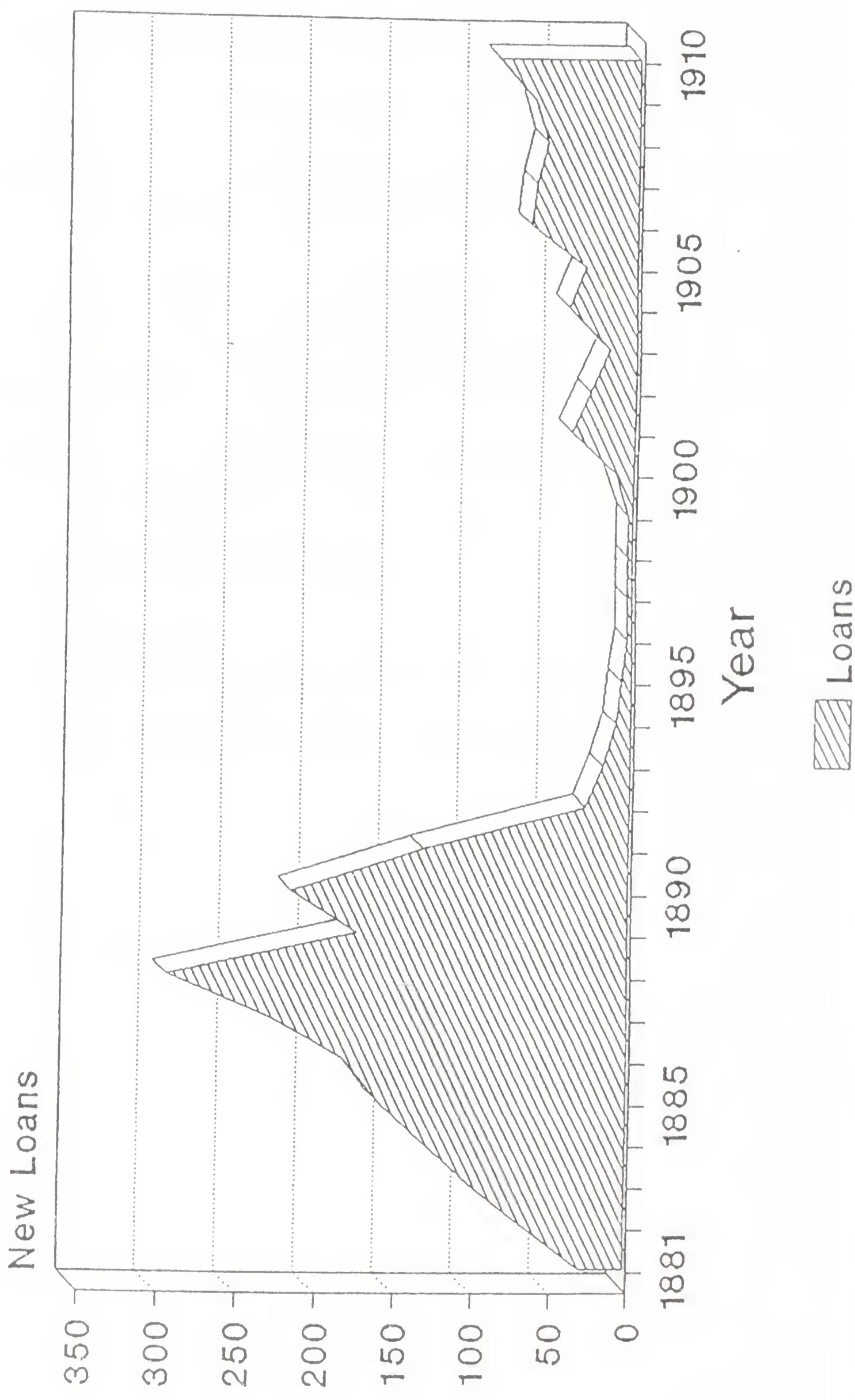
⁸⁴ ANU, 24/1/4, MPBS, Minute Books, 22 October 1895; 31 October 1895; 30 January 1896.

⁸⁵ ANU, 24/1/4, MPBS, Minute Books, 23 April; 7 May 1896.

⁸⁶ ANU, 24/1/5, MPBS, Minute Books, 16 May 1906.

⁸⁷ UMA, SMBS, Minute Books, 5 December 1891, unidentified clipping.

Figure 2 Standard and Mutual Building Society
New Loans, 1881 - 1910



properties, it also accepted some mortgagors' requests for easier terms rather than carry the charges of managing rental dwellings. Nevertheless, by 1894, the SMBS held approximately 400 houses.⁸⁸ A.E. Dingle and D.T. Merrett found that, a few years after the crash, building societies became the city's largest landlords holding 7.5 to 10.5 per cent of its housing stock.⁸⁹

The surplus of urban space became obvious to the directors of the SMBS by the summer of 1890. In August, they rejected a loan application 'on account of the number of empty houses in the neighbourhood.' By early 1891, the difficulties of the surplus manifested itself in another way. As the number of foreclosed properties multiplied, the SMBS—like the MPBS—had to deal routinely with tenants who could negotiate for lower rents due to abundant vacant houses.⁹⁰ In September 1891, a fresh predicament arose when many investors stopped renewing deposits.⁹¹ To cover withdrawals and expenses, the society sought loans from the Bank of Victoria and an insurance company.⁹²

Like many counterparts, the SMBS stumbled along with short-term bank support until squeezed into a reorganisation. In December 1892, it appealed to depositors to accept debentures. What may have secured their compliance was a threat of voluntary insolvency entailing a liquidation of assets that advocates of reorganisation claimed would take ten to twelve years.⁹³ In fact, liquidation of

⁸⁸ UMA, SMBS, Minute Books, 11 July 1900. The valuators estimated the worth of the society's properties at roughly £87,000. Assuming that houses were worth £200 each and given that about 200 houses were mentioned directly in the minutes from 1897 to 1900, the estimate of 400 seems reasonable.

⁸⁹ A.E. Dingle and D.T. Merrett, 'Home Owners and tenants in Melbourne, 1891-1911', *Australian Economic History Review*, 12 (March, 1972), 33-4.

⁹⁰ UMA, SMBS, Minute Books, 18 February 1892; 24 November 1892.

⁹¹ UMA, SMBS, Minute Books, 7 October 1891; 2 December 1891; 20 January 1892.

⁹² UMA, SMBS, Minute Books, 8 July 1892.

⁹³ UMA, SMBS, Minute Books, Minute Book for 1885-1892, unidentified clipping pressed in this volume.

foreclosed properties by the restructured society took almost as long. The SMBS found it nearly impossible to sell property from 1891 to 1898. In the spring of 1891, it discovered it could not sell foreclosed houses.⁹⁴ Dingle and Merrett place the beginning of city-wide recovery of real estate sales in 1897.⁹⁵ That would have been early for this society, but the chairman of the board enthused in August 1900 that 'we have at length entered the floodtide of prosperity.'⁹⁶

In the moribund market of the mid-1890s, a few mortgagors walked away from their houses, handing in keys to the society. Home buyers had seen their equity in a mortgaged property erased by the price collapse. Now, some calculated, it was cheaper to live in rental housing than to sustain payments to a building society.⁹⁷ Offering better terms, the SMBS pleaded with them to stay put, but in the exodus from the city and inner suburbs were a number of SMBS clients. The population of greater Melbourne declined from 490,900 in 1891 to 477,500 in 1896. Perversely, inventories of a very durable commodity grew after production ceased. Like the MPBS, the SMBS of necessity emerged as a novice landlord in a tenants' market.

To attract and retain tenants, it had to repair units which had deteriorated in the hands of the hard-pressed previous owners. But not even reduced rent and improvements helped in certain cases, such as the one where 'the agent advises that it will be difficult to let at a nominal rent.'⁹⁸ In desperation, the SMBS

⁹⁴ UMA, SMBS, Minute Books, 22 April 1891.

⁹⁵ A.E. Dingle and D.T. Merrett, 'Landlords in Suburban Melbourne, 1891-1911', *Australian Economic History Review*, 23.

⁹⁶ UMA, SMBS, Minute Books, 8 August 1900.

⁹⁷ UMA, SMBS, 12 October 1894; 7 November 1894. Mortgage lending was sometimes thought of as 'pawnbroking', because they had the similar risk that the borrower, not facing insolvency by surrendering the security, was certain to forfeit this security the moment it became unsaleable. See *Table Talk*, 3 February 1893.

⁹⁸ UMA, SMBS, Minute Books, 20 March 1895.

leased several miserable properties to a landlord who paid a flat rate.⁹⁹ A rent collector was hired in 1892, but the results were so poor he was let go in 1896 for want of work.¹⁰⁰ Apart from the lost revenue, vacancy meant vandalism and squatters.¹⁰¹ Only in 1898 could the society unload its houses and by 1899 it could also pick and choose tenants, turning down business from slum landlords!¹⁰²

Contemporary witnesses lacked theoretical understanding, but they occasionally made telling observations. Henry Gyles Turner, for example, suggested that quite as much money was lost in private land syndicates as by banks and building societies.¹⁰³ Although he cited no evidence, his proximity to the action and Melbourne's insolvency schedules add syndicates to the list of important participants in the land boom. A description of how an unincorporated land syndicate worked exposes the investor's jeopardy. Their creators may have used them to offset risk for the land dealings they initiated. By 1888, new land syndicates had an air of desperation about them as their authors attempted to slip a heavy obligation.¹⁰⁴ Turner recalled that the syndicates had burgeoned in 1886–87. Having purchased a large tract of land with credit, typically a farm on the suburban fringe, the promoter or promoters canvassed for others to join in. Often this was done through newspaper advertisements or a circular, though land agents and auctioneers were sometimes solicited for the names of individuals who appeared interested in

⁹⁹ UMA, SMBS, Minute Books, 18 January 1893.

¹⁰⁰ UMA, SMBS, Minute Books, 18 September 1896.

¹⁰¹ ANU, 24/1/4, MPBS, Minute Books, 27 February 1896.

¹⁰² UMA, SMBS, 26 April 1899.

¹⁰³ Turner, A History of the Colony of Victoria, 303.

¹⁰⁴ La Trobe Library, Ms 9342, Yeo, Crossthwaite & Co., Yeo, Bretnall, and Merrin to Malcolm McLean, 14 September 1888.

speculation.¹⁰⁵ Past profits, of the order discovered by Silberberg, were surely the bait. Possibly some investors were novices, but many joined several syndicates.¹⁰⁶

Syndicates differed. Many concentrated on a single suburb, but one syndicate held land in Glen Iris, Campbellfield, Hastings, Fern Tree Gully, and Northcote.¹⁰⁷ Others also had scattered holdings because, when a single syndicate lacked the resources to buy and subdivide a large estate, the vendor's agent would approach several syndicates.¹⁰⁸ Syndicate membership seems to have been small, consisting of 5 to 20 investors¹⁰⁹; the corollary of this was that each member had to pledge a large sum. Investors included the affluent and influential: merchants, manufacturers, solicitors, building-materials suppliers, pastoralists, sharebrokers, and politicians. Some investors belonged to several syndicates, borrowing money for the initial instalments for each. The risk to the economy was that operators of otherwise viable concerns could go bankrupt on account of land dealings. Investors pledged to pay the balance owing on their pledges at 'calls', that is by instalments spread over three to five years. Some investors assumed that they would sell enough land to cover the calls and, of course, rake in a profit. The prospect that the calls might become a burden was not a prominent calculation. If, as turned out to be the case, sales faltered,

¹⁰⁵ La Trobe Library, Ms 9342, Yeo, Crossthwaite & Co., Yeo, Bretnall, and Merrin to Malcolm McLean, 5 October 1888; 25 June 1889.

¹⁰⁶ This is apparent in the lists of liabilities cited by insolvents in their insolvency schedules, discussed later in the paper.

¹⁰⁷ Victorian Public Record Office, Victorian Public Record Series (henceforth VPRS), 765, unit 5, Melbourne Insolvency Court, 1891-3, Schedule of Alfred Strongman.

¹⁰⁸ La Trobe Library, Ms 9342, Yoe, Crossthwaite & Co., H. Merrins to Malcolm McLean, 11 October 1888.

¹⁰⁹ La Trobe Library, Ms 9342, Yoe, Crossthwaite & Co., Correspondence, 1882-9, Yeo Bretnall Merrin to G. Pallett, 25 June 1889. Land held by the McKinnon Heights Syndicate had not sold an auction in January and the members were being called upon for capital.

then the syndicate officers demanded calls, enforcing these with threats about the investors' loss of equity or with writs if necessary.¹¹⁰

As a leveraged investment, a syndicate involved the risk of a headlong fall into an abyss of debt. Or as Turner put it, 'the depressing cloud of uncalled capital hung suspended like the fiat of doom.' He estimated the liabilities for calls—from companies as well as syndicates—in 1891–93 as exceeding £10,000,000.¹¹¹ Confidence in the economy was shaken in 1892 when lists of bank shareholders were published, for the investing and saving public could 'judge what the asset of uncalled capital may be worth.'¹¹² This consideration raises, once more, a question about Hall's thesis that a government declaration making banknotes legal tender in March 1893 could have rescued a sound economy. A day of reckoning, of some sort, was unavoidable.

In their 1967 review of *The Land Boomers*, Beever and Freeman mentioned that the re-building of Melbourne's commercial core contributed to the boom, that not all of the feverish activity occurred in the suburbs. Some of the over-building involved the rebuilding of the central business district. The case of City Properties furnishes an example of core redevelopment in boom and bust. City Properties concentrated on central commercial properties. Its most famous undertaking was the elegant arcade known as 'The Block'. Incorporated with broad powers to buy and sell land, lend on mortgages, and build all manner of structures, it commenced operations in 1886.¹¹³ Benjamin Fink, Meudell's former employer and the most expansive landboomer in the city, was a founder. Within months of formation, the slow down in suburban

¹¹⁰ La Trobe Library, Ms 9342, Yoe, Crossthwaite & Co., Correspondence, 1882–9, Yeo Bretnall Merrin to G. Pallett, 25 June 1889. Land held by the McKinnon Heights Syndicate had not sold an auction in January and the members were being called upon for capital.

¹¹¹ Turner, *A History of the Colony of Victoria*, vol.2, 306.

¹¹² Table Talk, 11 March 1892.

¹¹³ UMA, Howden and Lyell, City Properties, Box 1, Memorandum of Association.

land sales had begun, so City Properties, which had started with central business buildings, confined its operations to the commercial core. Locked into developing 'The Block' even as they felt a tightening of credit in 1889, directors sought capital by issuing 'calls' upon shareholders. Some could not comply. They also sought to borrow to 60 per cent of the valuation of some of their properties.¹¹⁴ They determined to complete 'The Block'.

City Properties' tenants included retailers, commercial services, and professionals, all of whom likely felt the initial contraction of trade in 1888 and 1889. These tenants had staying power and a belief in improvement. That hope may have been a desperate one, but it caused them to struggle on—as the building societies had—by means of credit. As tenants in a high rent district their reputations and business accounts secured for them credit even while banks generally contracted loans. A few tenants proposed expansion in 1889–90 and new ones came forward to book space in 'The Block'.¹¹⁵ While several tenants asked for reduced rents as early as May 1889, the directors held the line until March 1892; thereafter, they granted concessions.¹¹⁶ By that time some major tenants were in arrears and destined for insolvency. In the summer of 1893, City Properties began to turn over its rents directly to mortgagees, eventually losing control of all but 'The Block' (Figure 3).

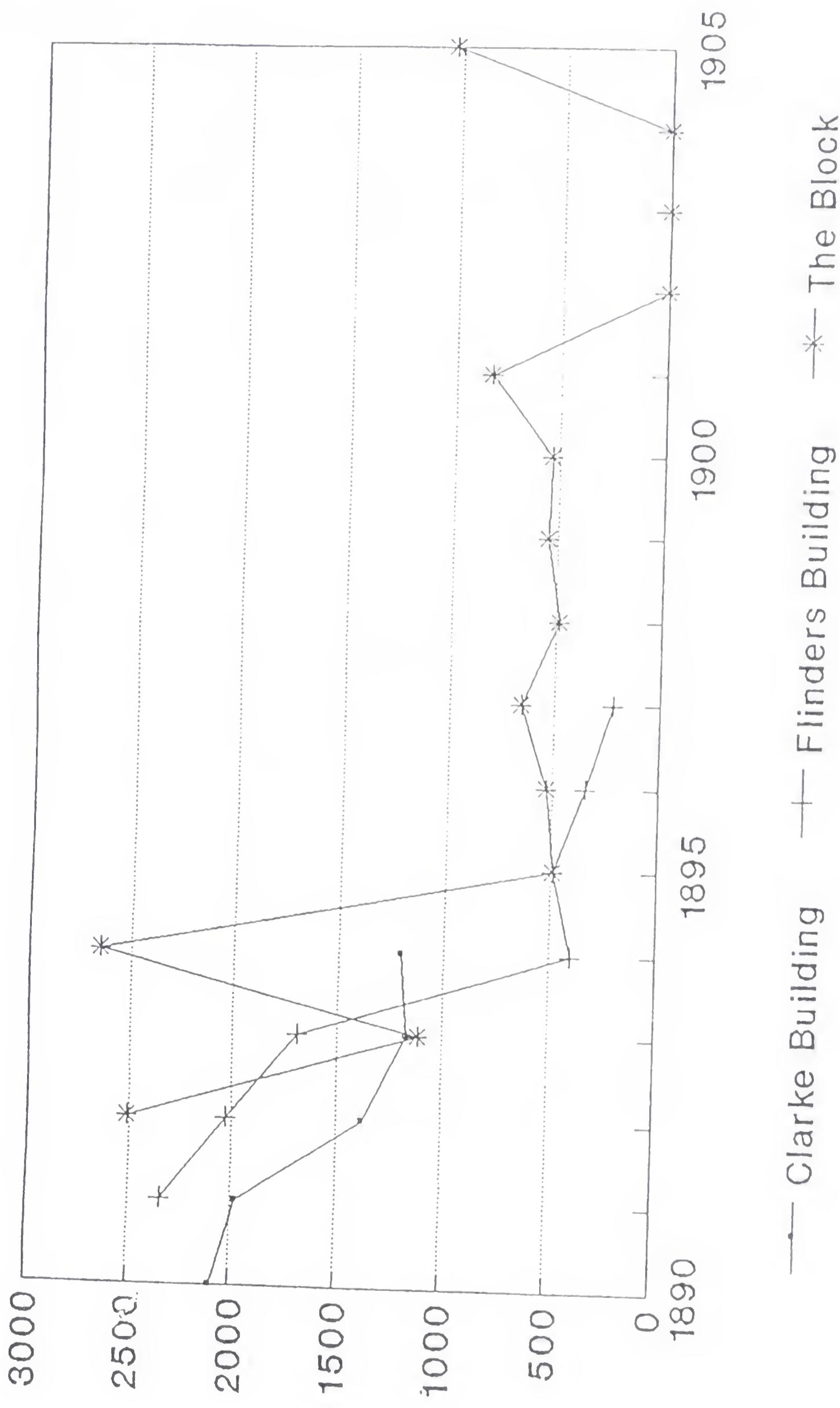
Thus far, this sketch of participants has dealt with institutions or syndicates. The abundant wheeling and dealing by individuals is more difficult to summarise and the one rich source besides land registry records—the Melbourne insolvency court—by definition only collected information on failures. Yet, the schedules and declarations filed with the court offer glimpses of individuals' assets and liabilities in the boom and bust. They substantiate the

¹¹⁴ UMA, City Properties, Minute Books, 13 June 1889; 25 June 1889.

¹¹⁵ UMA, City Properties, Minute Books, 11 December 1889; 14 January, 25 April, 5 June, 27 October 1890.

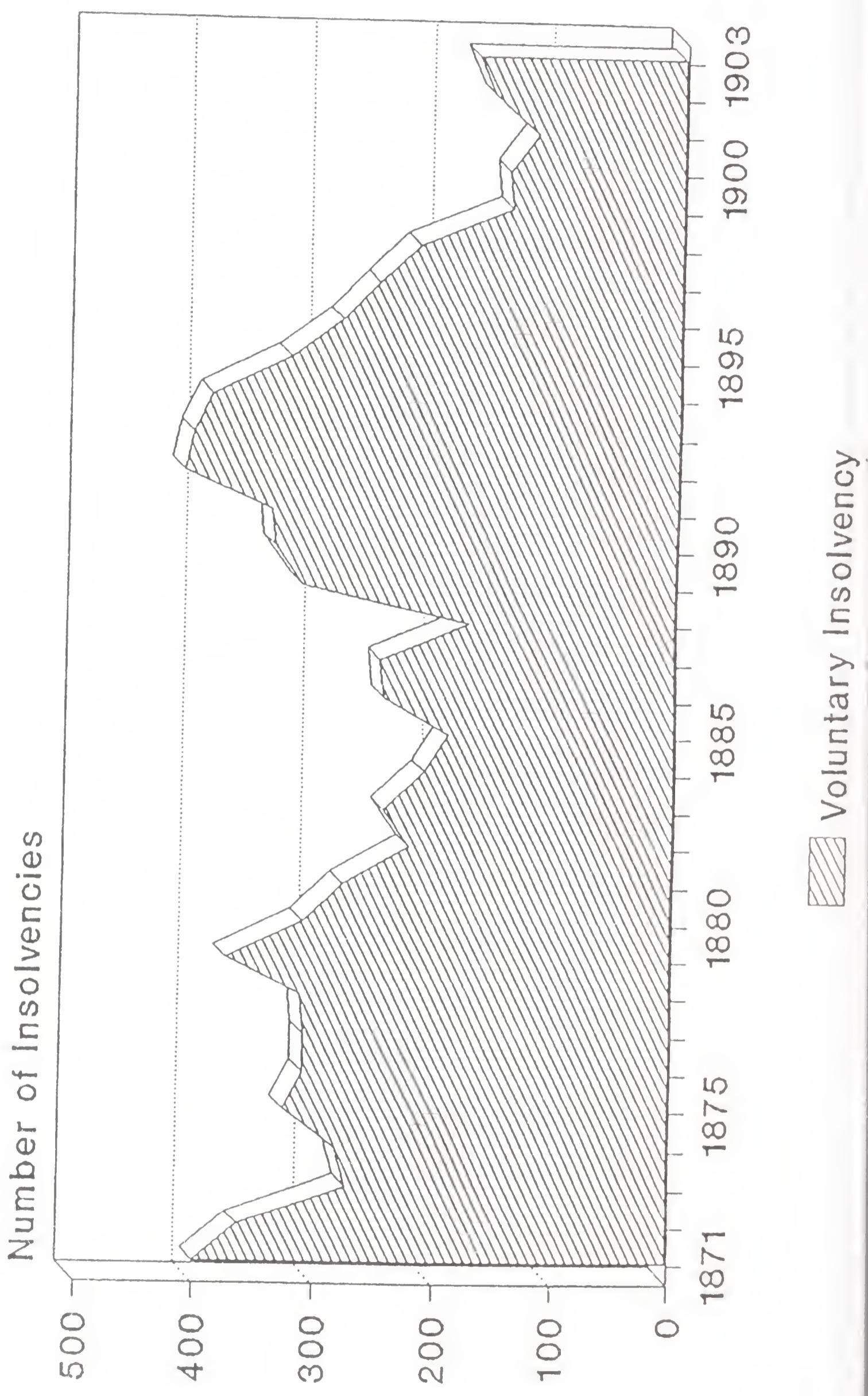
¹¹⁶ UMA, City Properties, Minute Books, 27 May 1889; 16 March, 15 June, 27 July 1892;

Figure 3 City Properties Rental Income for Three Buildings



No Data on the Block from 1901 to 1904

Figure 4 Voluntary Insolvencies in Melbourne
1871-1903



claim by Beever and Freeman that Cannon had created a spurious impression of corruption as the hallmark of the land boomers.

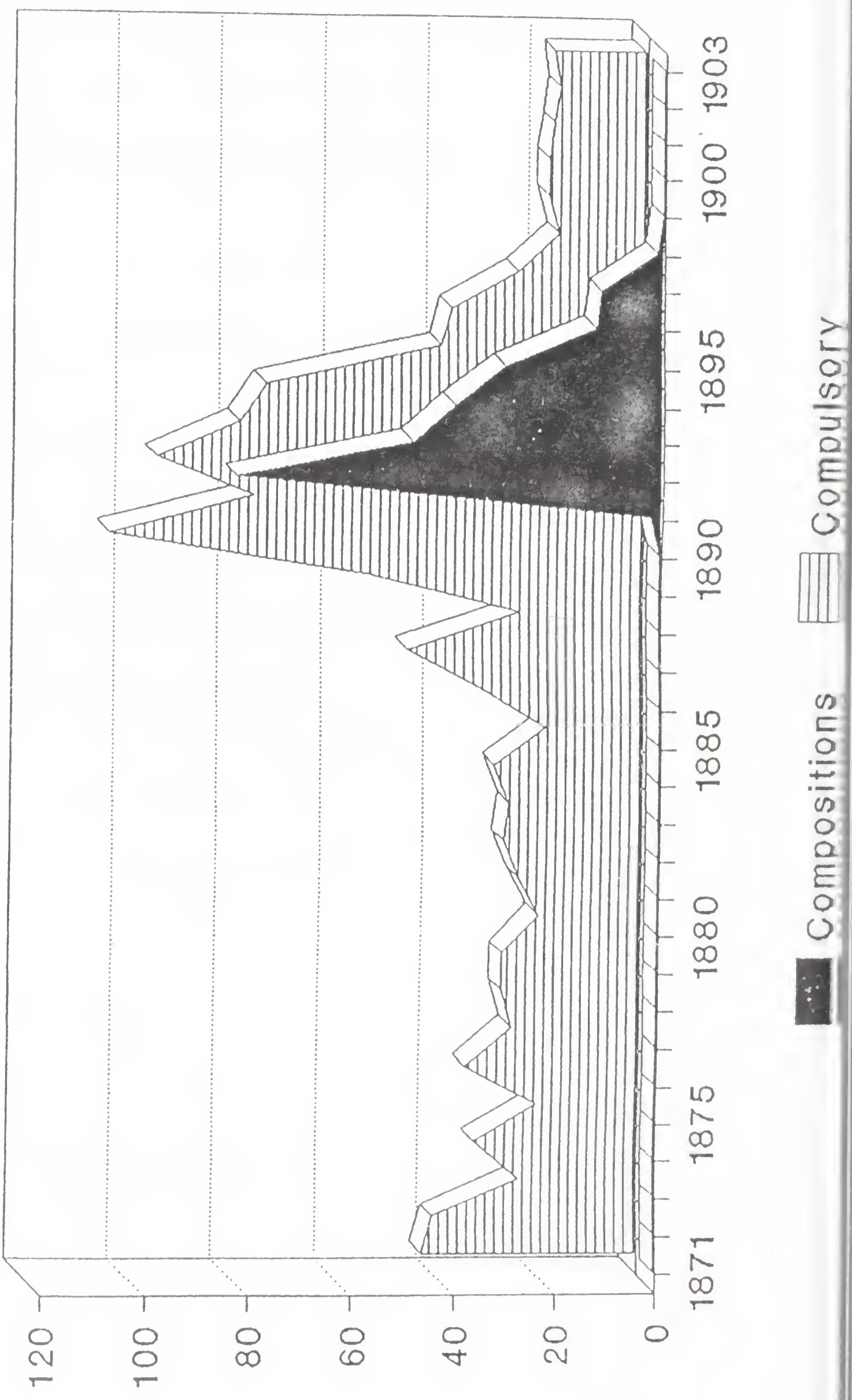
In order to extract good value from court records, it is necessary to summarise Victorian insolvency law. Nuances aside, there were three categories of personal insolvency and the numbers in each suggest things about the state of the economy. The most common were voluntary insolvencies. Individuals filing with the court under this heading declared an inability to meet liabilities. In good times and bad, a certain number of small individually-operated businesses failed and their operators elected to declare themselves insolvent so as to limit repayments to seven shillings in the pound, retain a certain amount of personal goods and tools, and eventually secure a court discharge to start anew. These insolvencies did not rise remarkably during the crash (Figure 4).¹¹⁷ Compulsory insolvencies occurred when a creditor sensed that someone could no longer meet outstanding accounts or loans and had to be taken out of business before assets dwindled further, leaving barebones for creditors. Often a creditor was hard pressed too and could not grant an extension. A sharp rise in compulsory insolvencies signalled panic and collapse (Figure 5). It would appear from the number of these that the Melbourne economy was in difficulty before the actual bank crisis which Hall accepted as a turning point.¹¹⁸

Until 1896, it was possible in Victoria to reach an out of court settlement with one's creditors, always for a repayment schedule of much less than the

¹¹⁷ The data for the insolvencies is taken from Victorian Public Record Series (henceforth VPRS) 757, volumes 1-6, Registers of Insolvents, Melbourne Insolvency Court. These registers listed the name, occupation, amount owing, and value of assets of the estate. There were summaries at the end of each year, but they did not provide a tally for occupations.

¹¹⁸ 54 Victoria No.1102. Insolvency Act (1890).

Figure 5 Compulsory Insolvencies and Compositions
Melbourne, 1871 - 1903

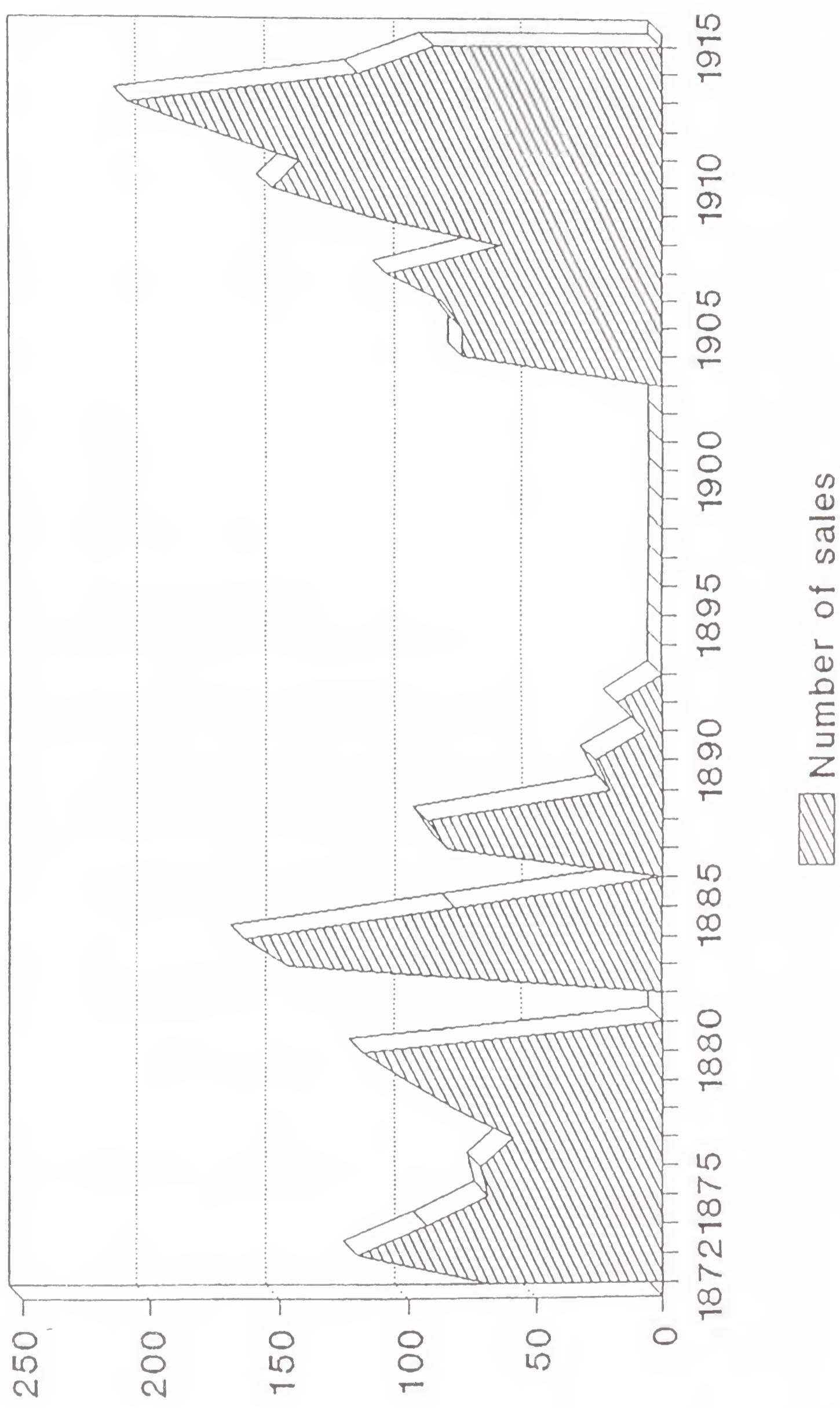


minimum of seven shillings in the pound mandated by law when insolvency cases went to court.¹¹⁹ Clearly, a composition—a ‘compote’—was of no interest to creditors unless the debtor had leverage. A few compositions were made between friends and relatives. The more prevalent and potent leverage was secrecy; the court clerk registered the agreements but no evidence had to be heard in court. As the economy slipped from bad to worse, insecure creditors—for example deposit institutions—did not wish to have their bad investments bruited about. It was worth the price of a minuscule recovery on loans to preserve public confidence. Large debtors had a power of blackmail. It is no wonder that banker Turner, who surely recalled secret ‘compotes’ with bitterness, felt that the failure of gentlemen to abide by contracts had precipitated bank failures. While compositions, like compulsory insolvencies, intimated a recessionary collapse, they emphatically declared a particularly dark phase. Not only were compositions a portent that towering business figures had lost enormous sums, but they conceivably illustrate the frailty of financial institutions just before they suspended operations or while seeking to reorganise. They appeared suddenly in 1891 and shot up in 1892 (Figure 5).

It is helpful to think of insolvents as falling into three groups of land market participants, each with a different capacity to sense the over-supply of urban space, each with distinctive survival capabilities. The first group, the lower end producers and sellers included real estate agents, residential landlords, and small building contractors with slender resources and restricted credit. These people may have speculated, gambling on future demand, but they necessarily worked closely with immediate demand for urban space. They are represented by many small-scale property-industry operators who became insolvent in increasing numbers around 1886. A slowing of demand struck them first. That

¹¹⁹ 54 Victoria No.1102. Insolvency Act (1890); 61 Victoria No.1513. Insolvency Act (1897). State Library of Victoria, P.D. Phillips, A Treatise on the Insolvency Law in Force in the Colony of Victoria with an Historical Review of English Bankruptcy Legislation (Melbourne: J.C. Stephens, 1899), 168-9.

Figure 6 Sales by J.R. Buxton Realty Company
1872 - 1915



was the experience with J.R. Buxton a South Melbourne realtor whose sales peaked in 1885 (Figure 6).¹²⁰ Possibly, as this sketchy evidence suggests, the land market was becoming over-supplied, in terms of immediately required urban space, as early as 1885–86. The timing squares with a 1892 report by *Table Talk* that seven years earlier it had warned that more allotments had been cut up 'than would be sufficient to house the whole population of London.'¹²¹

The second group—the facilitators—included building supply firms and the financial institutions most directly involved with mortgage lending. The evidence suggests that facilitators initially became aware of over-supply problems in 1888–89, as demands by lower end producers and sellers faltered. Finally, there were the major players: big speculators, developers of large commercial ventures, and primary financiers. What distinguished them was their involvement in additional businesses and deep pockets—their own and those of others. They had strategies to survive the initial shock of over-supply, but when they could hold out no longer they filed for insolvency or 'composed' in 1892–93. Cannon's narrative dealt with the machinations of a handful of them.

To better understand who the large as well as more modest speculators were, two samples were selected from the 1892 insolvency records. One sample consisted of all voluntary and compulsory insolvents who had debts of more than £10,000.¹²² These 41 parties—7 per cent of all voluntary and compulsory insolvents—accounted for eighteen per cent of all insolvents' indebtedness, including compositions. They had a mean debt of about £35,000

¹²⁰ UMA, J.R. Buxton Pty. Ltd. Papers, Real Estate Ledgers, 1871-1880, 1883-4, 1887-1892, 1904-1910.

¹²¹ Table Talk, 16 September 1892.

¹²² VPRS 765, unit 5, Melbourne Insolvency Court, 1891-3. The records are in the form of bundles of documents; each bundle concerns the case of one insolvent. The records in the bundle usually contained the petition for insolvency, and list of assets and creditors' claims. On several occasions, they contained the insolvent's declaration or minutes of the court's inquiry.

or £23,000 if two enormous insolvencies are excluded. The second sample consisted of insolvents who composed their debts and whose assets—surely overvalued—still left a deficiency of more than £10,000.¹²³ The thirty-nine debtors meeting this condition had a mean deficiency of roughly £67,000. By setting high thresholds, it was hoped that most would be parties who played the land market heavily. This proved to be the case.

Of the forty one 'regular' insolvents, thirty attributed their plight to 'depreciation in value of my real estate and inability to realise on same.' Sometimes petitioners added information about illness or the stagnation of trade to this stock phrase. Several mentioned 'the absolute failure of any market for real estate and stocks'; several blamed the pressure of 'calls' for payment on land syndicate shares. One described conditions like those besetting the building societies. He could sell no real estate and he suffered a 'loss of rent through inability to obtain tenants.' Who were the thirty large-scale land-speculator insolvents? Were they dishonest?

A dozen occupations were covered, including widow, gentleman, clerk, leather merchant, gardener, builder, merchant's salesman, hotel keeper, and several each of estate agents, auctioneers, accountants, and solicitors. Only one of these insolvents surfaces in *The Land Boomers* as a convicted crook: Patrick Cleary, the accountant who helped Matthias Larkin defraud the South Melbourne Building Society. Two others had committed improper acts: auctioneer and valuer Robert Curtain and solicitor James Wighton received 'sweetheart' loans from financial institutions they served. However, the thirty also included J.R. Buxton's partner, William Buckhurst, who convinced the liquidators of the South Melbourne Building Society to finance the further prosecution of Larkin. What these thirty shared were purchases of land or land

¹²³ VPRS 763, Boxes 4-12, Melbourne Insolvency Court, Deeds of Composition.

syndicate shares late in the boom followed by a bitter understanding of the liquidity hazard.

The thirty-nine who composed debts and had deficiencies between liabilities and assets of more than £10,000 were slightly different from large voluntary and compulsory insolvents. Those who composed debts had a mean deficiency of £67,000, or £41,000 if the million pound deficiency of Benjamin Fink is excluded. The thirty-nine accounted for seven per cent of all insolvents, but one third of the value. Among their number were auctioneers and solicitors, but also a number from higher status occupations: gentlemen, landowners, architects, a manufacturer, brewer, and grazier. At least one faced criminal charges.¹²⁴ Only three were uninvolved with land markets and a fourth was a grazier who went into debt to buy freehold land for his station. Clearly, most insolvents who composed debts were heavily involved in land speculation. Altogether, the sixty-six land speculators among the two samples of insolvents accounted for roughly forty per cent of the debts of Melbourne's insolvents in 1892. In their haste to reap profits on the order of those found by Silberberg, investors lost sight of the risks. They assumed liquidity for urban space. Since many operated other businesses, their costly errors impaired other areas of the city's economy. Land speculation was not hived off from 'healthy' realms of enterprise. In that sense, the collapse was surely connected to the excesses of the boom.

The Liquidation of Real Property

The SMBS and the MPBS survived the crash, but had to liquidate collateral. Many financial institutions went straight into liquidation. Liquidators had a flourishing trade handling the assets of individuals who filed for insolvency. In the public areas around Judge Hickman Molesworth's insolvency court, so-

¹²⁴ Cannon, *The Land Boomers*, 176.

called 'trade assignees' buttonholed insolvents and solicitors as they arrived.¹²⁵ The liquidation business is one area of the crash that has not been studied.

Preliminary insights can be extracted from the records for five companies that had to wind up their business. They offer impressions of the real property market in collapse and of problems with suburban land investments. Three of the failed companies—the City of Melbourne Bank (Melbourne), the Federal Bank and the Mercantile Bank—were among the twelve 'real banks' with headquarters in Melbourne at the start of the bust. Such banks were intended primarily to discount commercial paper and issue bank notes. However, these three, like building societies and mortgage banks, lent extensively on landed security (Figure 7). Further, the Federal and City of Melbourne belonged to a cooperative organisation of banks of issue, the Associated Banks.¹²⁶

As the weakest and smallest of the Associated Banks, the Federal was the first to suspend—28 January 1893.¹²⁷ It never reopened. The more substantial Melbourne suspended on 17 May 1893, opened on 19 June, and failed in August 1895.¹²⁸ The Mercantile had suspended on 5 March 1892 as a prelude to liquidation.¹²⁹ The two other firms, land mortgage banks, had been formed purely to speculate in land: the Freehold Investment and Banking Company (Freehold), and the English and Australian Mortgage Bank (E&A). They were among the largest of the companies that bought vacant suburban land for resale

¹²⁵ VPRS 76, unit 3, Insolvency Court Correspondence, 1888-1898, Clerk of the Insolvency Court, 13 July 1896, draft reply to a report in the Herald dated 9 July 1896.

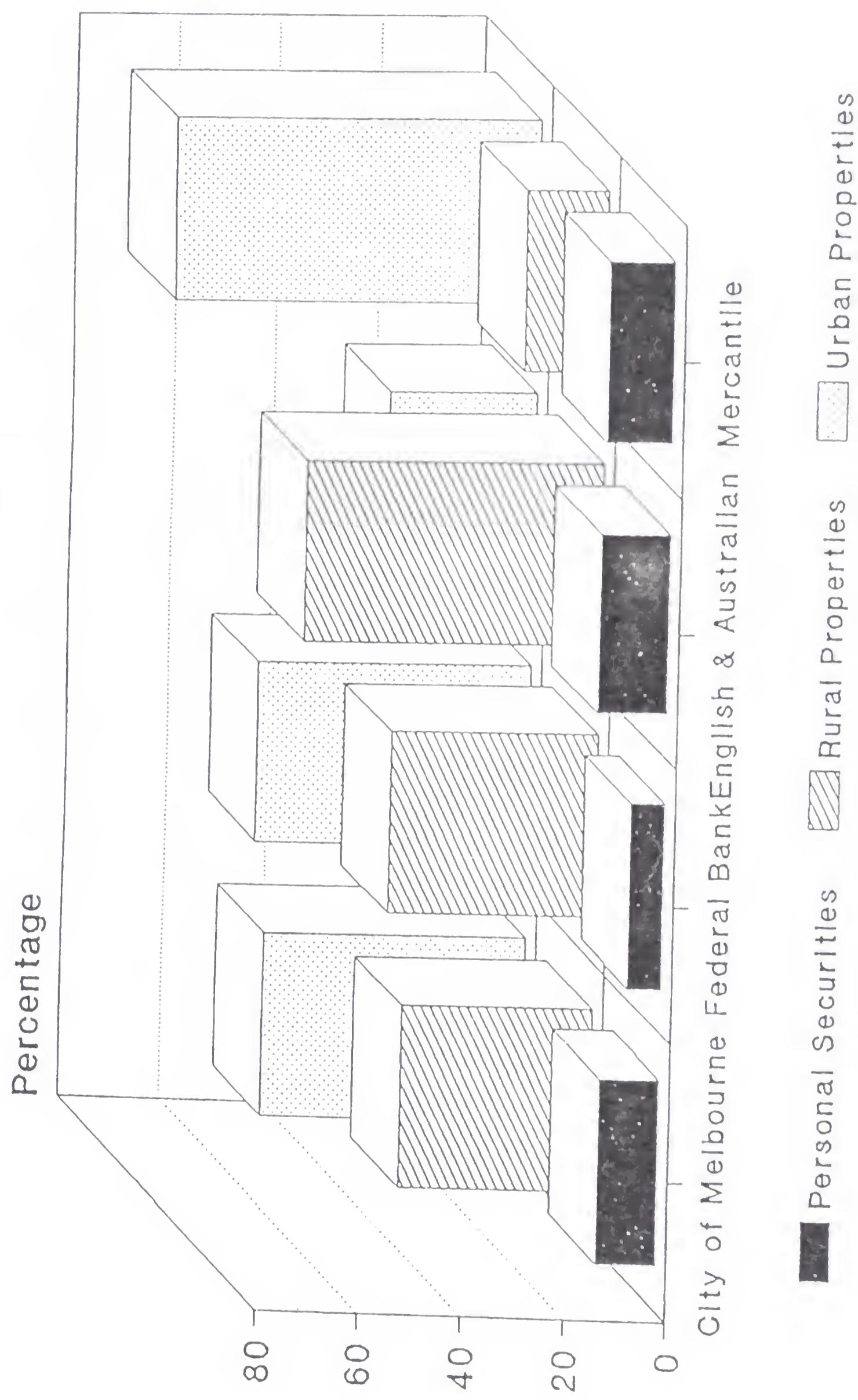
¹²⁶ Boehm, Prosperity and Depression, 242-3.

¹²⁷ The assets disposal firm that took over this bank reported debts outstanding in 1897 at £303,357; assets in 1899 were valued at £188,827. ANU, 12/36, Fell Co., The Federal Assets Co. Ltd., Register of Assets.

¹²⁸ The assets disposal firm that took over from this bank reported debts outstanding in 1897 at £2,929,775. Its assets were valued at £615,838 in 1899. ANU, 12/35, Fell Co., Melbourne Assets Co. Ltd., Register of Assets.

¹²⁹ The assets disposal firm that took over from this bank reported outstanding debts of £606,067. Its assets were valued at £212,387 in 1899. ANU, 12/35, Fell Co., The Mercantile Bank Assets Co. Ltd., Register of Assets.

Figure 7 Percentage of Debt by General Security Type, Four Assets Disposal Firms, 1897



in allotments and provided purchase-money mortgages.¹³⁰ The E&A had at least a dozen subdivision surveys on the market when it collapsed on 4 February 1893.¹³¹ The Freehold had preceded it on 30 January. All five had facilitated the dealings of the city's major networks of land speculators.¹³² These 'rotten' lenders were not typical. An 1897 assessment of the status of the loans outstanding at all four realisation companies showed that fifty-five per cent were considered wholly dead and merely one per cent had paid or were paying the contracted sums. Recovery of amounts outstanding, therefore, was a matter of realising sums from liquidation.¹³³

From their glory days when they had built or leased prominent offices, these institutions plummeted far and fast. The assets disposal firms that superseded the Melbourne, the Federal, the E&A, and the Mercantile shared space to save on overhead. The first three merged in 1903 and the Mercantile joined in 1910.¹³⁴ The assets registers of these four indicate differences in the securities they had accepted, but they also underscore the prominence of land

¹³⁰ Silberberg, 'Institutional Investors in the Real Estate Mortgage Market', 166; 169.

¹³¹ ANU, 12/38, Fell Co., The English and Australian Assets Co. Ltd., ledger of assets. The twelve were Bowen Hill, Box Hill Land Development, Caulfeld Hill Estate, Cotham Estate, Devonshire Park, Fairfield Park, Gascoigne Estate, Hope Estate, Kooyong Park, Park View Estate, Rosebury Park, Warrington Estate.

¹³² The manager of The City of Melbourne Bank, Colin Langmuir, financed his own land investments and those of Benjamin Fink and David Munro with this bank's credit. The Federal Bank financed the dealings of members of the Baillieu and Munro families. Matthew Davies and his friends and relatives used Davies' bank, the Mercantile Bank for their speculations. The English and Australian as well as the Freehold were also part of the Davies' network of land and finance companies. Cannon, *The Land Boomers*, 34, 104-5, 139-41, 165-77; Boehm, *Prosperity and Depression*, 256n. Historical sketches of these banks appeared in *Table Talk*, 11 March 1892; 13 January 1893; 19 May 1893; 18 May 1894.

¹³³ This was based on the sample of assets taken from the ledgers.

¹³⁴ UMA, R.H. Butler Papers, Melbourne Trust Limited, Memorandum of Association of Melbourne Trust Limited, 13 July 1903; Mercantile Bank Assets Company Ltd., Directors Report, 1909.

speculator accounts.¹³⁵ The three banks had somewhat similar portfolios, while the E&A clearly had tied up substantial assets in rural properties—presumably for conversion to suburban allotments (Figure 7). The four had the vast majority of their assets in Melbourne, its suburbs, and neighbouring counties.¹³⁶ The fifth institution, the Freehold, was liquidated as a separate concern and no ledgers were found. When taken together, only a small proportion of the securities of the four whose ledgers survive were in stocks, debentures, and pastoral lands. However, several very large advances from the Melbourne and Federal had been secured by pastoral estates; the Melbourne also had advanced money to a sugar plantation in Fiji (Figure 7). The downward revaluations of assets and the difficulty of recovering money by holding sales for such assets (Table 1) reaffirm the folly of Turner's assertions about the safety of landed security and support Peels' indictment.

In the dismal circumstances of population loss and a depression in trade, values for urban space were greatly written down. How far had valuations dropped? The four companies which shared liquidation facilities found in 1897 that realisable values on vacant urban land were less than a tenth of book values (Table 1). When he addressed the 1896 select committee on the companies act, Col. John M. Templeton, president of the Fourth Victorian Permanent Building Society, could not venture an estimate on the current value of vacant land. 'There is so much of it.' He thought allotments in his society's 'paddock' might have been worth an eighth the sums advanced.¹³⁷ Meudell's scathing remarks about valuators—'false valuations and silly asses of auctioneers'¹³⁸—resonate

¹³⁵ The ledgers do not include all the assets of these firms at the moment of their failure, for the entries are dated 1897. Some assets - presumably the most liquid - would have been sold. The ledgers covering 1903 and later for the Mercantile are missing.

¹³⁶ The City of Melbourne had 88.9% of its assets (by number, not value) in and around the city, the Federal 84.8%, the English and Australian, 84.6, and the Mercantile, 73%.

¹³⁷ Victoria, Report of the Select Committee, 72.

¹³⁸ Meudell, Recollections of a Spendthrift, 256.

Table 1: Types of Securities Held by Four Assets Disposal Firms in 1897/1899 (1)

Security by General Type	Type of Security (1897)	No.	%	(a)		(b)		(c)		(d)		(e)		(f)		(g)	
				Per Cent of Loan Accounts Secured by Type of Security	Per Cent of Value of Debt Covered by Type of Security	Mean Amount Owing Per Security	Estimated Value of Security 1897	Mean Amount Owing Per Security	Estimated Value of Security 1899	Mark Down Realized per Security by type from 1893 to 1897	Mean Amount Realized per Security by type from 1893 to 1897	Mark Down Realized per Security [(c+d) (100%) minus (100%)]	Mean Amount Realized per Security [(c+d) (100%) minus (100%)]	Percentage of Amount Owing Realized by Sales 1893-1897 (f+c) (100%)	Percentage of Amount Owing Realized by Sales 1893-1897 (f+c) (100%)		
Urban																	
Vacant Land	44.7	275	22.7	3,162	22.7	249	1,150	107	159	460	460	107	3,3	159	7.5	805	11.3
Cottages	8.9	55	4.2	2,113	4.2	376	460	15,60	1,108	3,300	1,108	607	607	607	1.6	607	1.6
Commercial	7.8	48	13.0	7,106	13.0	1,560	460	460	37,679	37,679	37,679	37,679	37,679	37,679	37,679	37,679	37,679
Large Villa	1.1	7	12.0	12,0	12.0	12,0	12,0	12,0	12,0	12,0	12,0	12,0	12,0	12,0	12,0	12,0	12,0
Rural																	
Vacant Land	8.5	52	8.4	4,551	8.4	782	480	480	480	480	480	480	480	480	480	480	480
Pastoral Land and Plantations	1.0	4	24.2	75,792	24.2	16,807	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020	5,020
Farms	3.1	19	4.7	4,7	4.7	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60
Miscellaneous																	
Stocks and Debentures	6.8	42	4.4	4041	4.4	279	1350	1350	1350	1350	1350	1350	1350	1350	1350	1350	1350
Personal Guarantees and Assets	15.6	96	6.4	1,023	6.4	646	50	50	50	50	50	50	50	50	50	50	50
Other	2.5	16	0.9	224	0.9	0	0	0	0	0	0	0	0	0	0	0	0

Note: (1) Based on a 25 per cent sample of accounts for the disposal of the assets of the City of Melbourne Bank, Federal Bank, English and Australian Bank and Mercantile Bank.

with these reassessments. The values of the immediately unproductive remains of the boom and bust—the vacant urban tracts and allotments as well as the villas of the speculators—were most drastically marked down. In reference to suburban plots, liquidators time and again remarked 'all valueless'¹³⁹ or 'security of only nominal value'.¹⁴⁰ A liquidator thought that land boomer James Munro's estate, serving then as a boarding house, 'may possibly be some day used for a gentleman's country residence otherwise will have to be sold at great sacrifice.'¹⁴¹ Furthermore, liquidators recognised the importance of location and marked down certain suburban tracts more than others. One area—on Albert Road in Camberwell¹⁴²—was described as 'perhaps the most disreputable quarter of the whole town—may have to be held for years before it can be advantageously used.'¹⁴³

Space managed as a going concern retained greater value (Table 1). Pastoral lands, sugar plantations and refineries, commercial properties, houses, and even vacant rural lands could generate income.¹⁴⁴ Of course, it was not easy to secure or maintain tenants. Maintenance was a constant bother that an extreme case can illustrate memorably. Two weatherboard cottages of the

¹³⁹ ANU, 12/38/1, Fell Co., The English and Australian Assets Co.Ltd., ledger entry for Alphinston Land Co.

¹⁴⁰ ANU, 12/34/1, Fell Co., The Federal Assets Co. Ltd., ledger entry for Mrs. F.M. Flood.

¹⁴¹ ANU, 12/36/1, Fell Co., The Mercantile Assets Co. Ltd., ledger entry for James Munro.

¹⁴² This may have been Mont Albert Road, part of an area that later had quite high real estate values.

¹⁴³ ANU, 12/36/1, Fell Co., Mercantile Assets Co. Ltd., ledger entry for City Investment and Finance Co. Although the general outlook for real estate and construction remained poor throughout the 1890s, there was some demolition and rebuilding in several inner suburbs. The street may actual have been Mont Albert Road. For the proposition that the city could have experienced internal variations in stagnation, see J.W. McCarty, 'Australian Capital Cities in the Nineteenth Century', *Australian Economic History Review*, vol.10 (September, 1979), 127-8.

¹⁴⁴ UMA, R.H. Butler Papers, Melbourne Trust, Directors' Reports for 1904-7. These remarked on the profitability of the station properties and the sugar plantation and refinery in Fiji. There were setbacks, but these properties often had profitable years.

E&A were ‘infested with white ants and...likely to become uninhabitable.’¹⁴⁵ To extract minimal income, liquidators leased out suburban tracts for grazing and agriculture. The liquidator of the E&A did this with the allotments of the Footscray Land Company, and awaited the growth of the city.¹⁴⁶ Also at Footscray, the Mercantile's liquidator let 119 acres for grazing.¹⁴⁷ With some justification, a pro-agrarian minority report of the 1895 royal commission on banking insisted that urban land ‘cannot be regarded as a security equal in safety to ordinary agricultural land.’¹⁴⁸ However, this principle was not universally true. As with suburban allotments, liquidators discovered the importance of location, for some rural freehold estates were remote. Six hundred acres at Buln Buln were described as ‘in the heart of a Bush, a long way from any Railway, Main Road, or Settlement.’ However, by 1902, sales had recuperated the sum outstanding.¹⁴⁹

Most but not all people associated with land markets became more discriminating. During its hearings, the 1895 Royal Commission heard Turner. Unrevised, he insisted that land was like chattel property. ‘You have a certificate of title and can see at a glance that it is clean, and, therefore it greatly facilitates lending; it makes the land a profitable commodity. It must be a good thing for all the community that the people who own land can feel that they can realise if they want to.’¹⁵⁰ His running together of problems of title—which

¹⁴⁵ ANU, 12/38/1, Fell Co., The English and Australian Assets Co. Ltd., ledger entry for C.E. Jones.

¹⁴⁶ ANU, 12/38, David Fell and Co., Limited, English and Australian Co., Limited, Register of Assets, Division A, Real Estate.

¹⁴⁷ ANU, 12/36/1 Fell Co., The Mercantile Assets Co. Ltd., ledger entry for the Progressive Property Co.

¹⁴⁸ Report of the Royal Commission on State Banking, xx.

¹⁴⁹ ANU, 12/36/1, Fell Co., Mercantile Assets Co. Ltd., ledger entry for Miller Bros. Co.

¹⁵⁰ Report of the Royal Commission on State Banking, 386.

were being solved by Torrens title—with those of liquidity—which had not been solved—was sorted out by hard questioning which forced Turner to admit he was wrong about liquidity.

Assets disposal firms and reconstructed financial institutions encountered the liquidity problem for at least a decade. There were no easy sales. In South Australia, Queensland, New South Wales, and Victoria, there had been desperate talk of organising lotteries with real estate prizes, but this expedient, used after several earlier American land busts and to dispose of certain assets of the Bank of Australia in 1849, was now rejected by colonial governments sensitive to temperance and anti-gambling crusaders.¹⁵¹ Early in 1892, a huge assets realisation firm was proposed with some vague idea that it could both dispose of land and control the price by 'cornering' the market. The scheme died.¹⁵² Auction sales remained moribund for a decade. If the experience of the Freehold Assets Company is any example, the sale of land posed a dilemma.¹⁵³ In addition to liquidating assets, the Freehold's directors believed they had to support a floor for real property prices—usually land—when almost no market existed. They routinely rebuffed first offers from bargain hunters, handing the manager exacting instructions: reject low offers but do not lose sales. Even for small parcels, this meant protracted negotiations.¹⁵⁴

¹⁵¹ State Library of Victoria, Banking in Australia from a London Official's Point of View, with some Remarks on Mortgage and Finance Companies (London: Blades, East and Blades, 1883), 33. Cannon, The Land Boomers, 198. Table Talk, 9 February 1892. In Sydney, a number of building societies sent representatives to a meeting to organise a lottery. A draft bill was prepared and forwarded to the Premier who opposed the idea. See ANU, 22/1/4, Haymarket Building Society, Minute Book, 17 December 1894; 3, 14, 28 January, 4 March, 16 April 1895.

¹⁵² Table Talk, 19 and 26 February 1892.

¹⁵³ There are no ledgers for the Freehold, but there are minute books; there are no minute books for the other three though there are ledgers. The idea that liquidators would compete and drive down the price of land was recognised more generally. See Table Talk, 26 February 1892; 11 May 1894.

¹⁵⁴ ANU, 12/1, David Fell and Co., Freehold Assets Co., Directors' Minute Books, entries from 16 December 1895 to 11 November 1897.

Figure 8 Assets Realisation: The Federal Bank and the English and Australian, 1897 - 1925

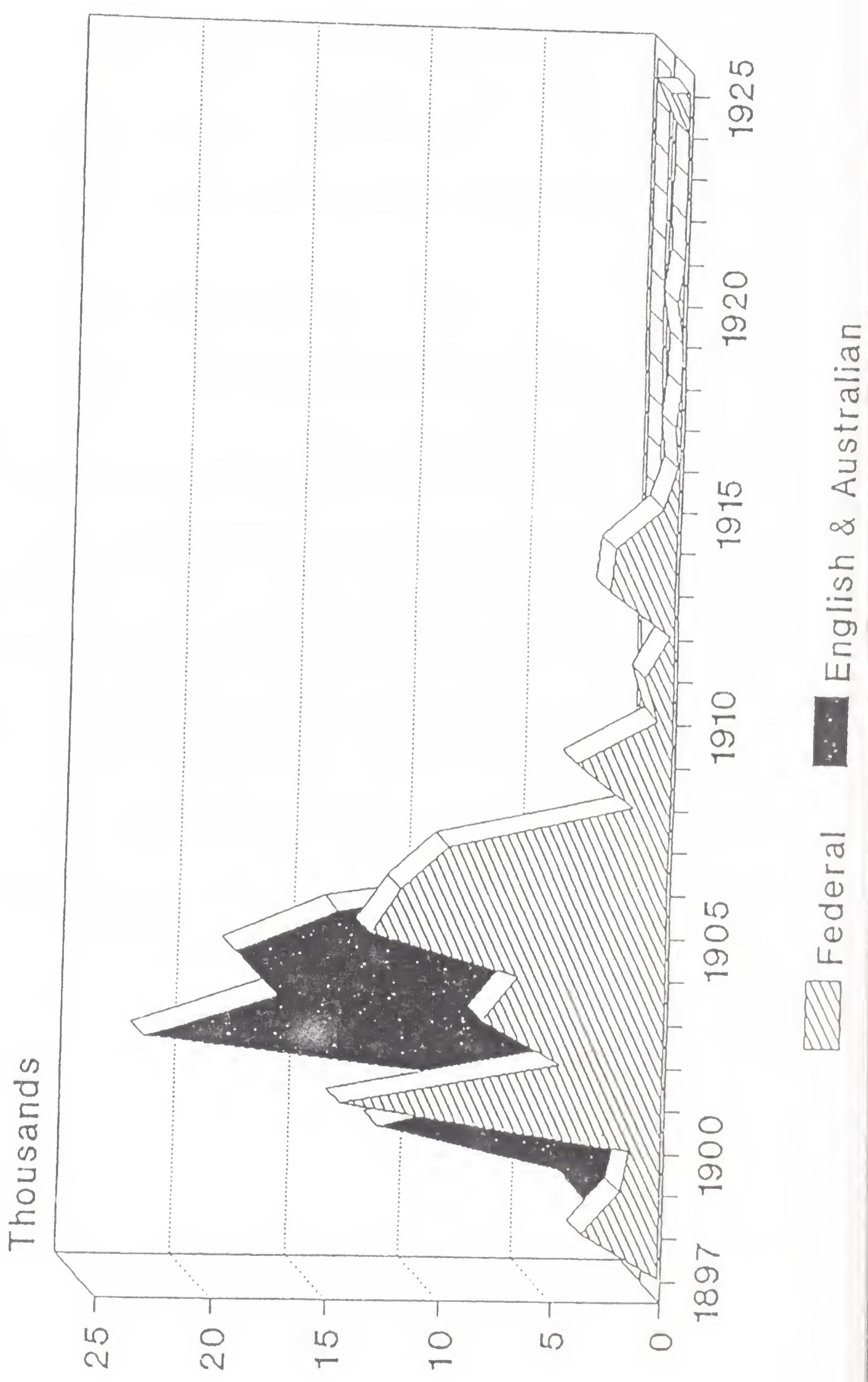
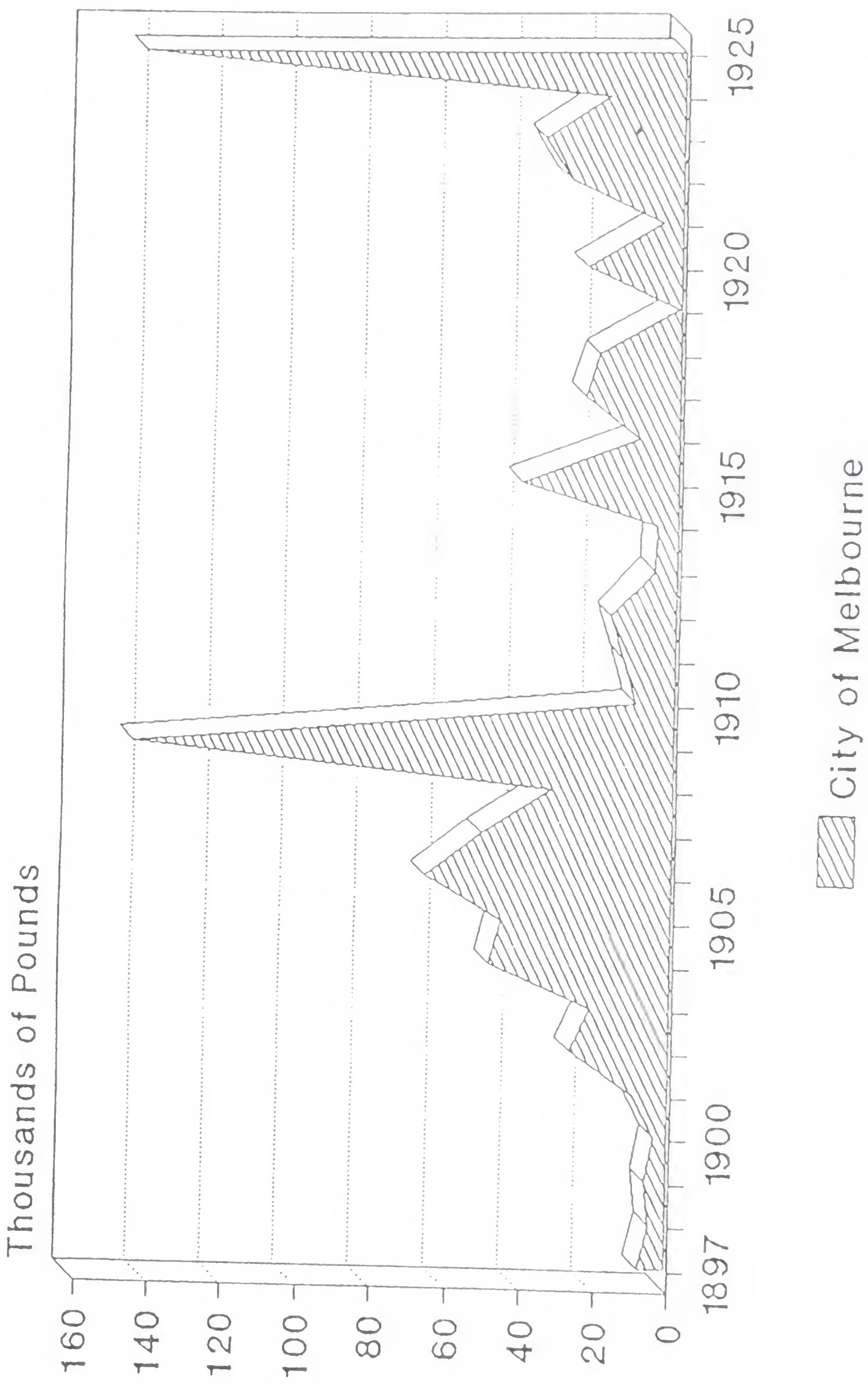


Figure 9 Assets Realisation: City of Melbourne
1897 - 1925



Briggs would have appreciated the contrast with quick turnovers during the boom. The mood and conduct of business had indeed changed.

Liquidation of a financial concern of a good size was a lengthy process. The SMBS had persuaded its depositors to agree to a reorganisation with the threat of a ten to twelve year liquidation process. The MPBS did the same.¹⁵⁵ At the 1895 Royal Commission hearings, W.G. Brown, a former bank manager turned liquidator thought that fifteen to twenty years would be needed for large firms. The experience of the Melbourne, Federal, Mercantile, and E&A confirm his estimate. With the largest number of assets, the Melbourne continued to dispose of property until 1925, although its returns peaked in 1909. The recovery of money by the other two peaked earlier. None experienced a firm market until after 1900 (Figures 8 and 9).

Summary and Lessons

Information and data about the operations of land boomers and liquidators portray a building cycle of twenty years (1888–1908) from peak to peak. In the early and mid 1880s, construction in the transportation sector drew investment to Melbourne. The building of harbour facilities and a railway network that focused on Melbourne attracted labour, placing demands on residential space. New service businesses and shops also benefitted and required additional space. Together the residential and commercial demand caused an expansion in building materials suppliers and in the provision of allotments. Once the existing stock of structures and allotments had been employed, demand for new space escalated. The natural tendency of people to seek to exploit this favourable situation as quickly as possible went unchecked, partly due to the business culture of the city. Regardless of whether investors sought long-term rental income or immediate speculative returns, they required credit. So did

¹⁵⁵ ANU, 24/1/4, MPBS, Minute Books, 11 May 1893.

home buyers. Thanks to relaxed corporate and banking legislation, numerous lending institutions sprang up. Many of their officers, inexperienced in finance or valuation and greedy, lent generously to land developers and builders who competed with one another in increasing the supply of allotments, houses, shops, and offices. By 1885, the boom was in progress.

It is difficult to tell when the city became over supplied with houses, office space, and allotments; however, the increase in insolvencies of people associated with the property industry in 1885–86 and a dip in sales experienced by realtor J.R. Buxton seems a portent. Perhaps the increasing insolvencies merely heralded the exit of a few of the many minor and inefficient newcomers drawn to the boom. In any event, adjustments at the lower end of city-building were not going to attract attention, not while brickyards and lumbermills continued to expand, not while more late-comers bought into land syndicates. On the basis of admittedly thin evidence, it seems feasible that immediate and short-term requirements for urban space were being met by the stock available around 1886, but this was not manifest and business decisions remained grounded on optimistic appraisals of the near future. Building societies issued new loans and allotment auctions still lured buyers. In certain situations, decisions to buy land, survey allotments, build, or expand could not readily be reversed. City Properties was a case in point.

The city-building process entered a more purely speculative phase by 1886. The number of land banks and land companies continued to grow through 1886–88. With benefit of hindsight, an estate agent admitted in March 1889 that the cutting up of rural land into suburban allotments had been 'overdone in Melbourne during the last two years and is now completely stopped.'¹⁵⁶ By mid-1888, insiders truly fretted. Auction sales languished. Thus months before the Associated Banks increased interest rates and warned they were not

¹⁵⁶ La Trobe Library, Ms 9342, Yeo, Crossthwaite & Co., H. Merrin to Rev. J. Gibson, 1 March 1889.

prepared to make advances on real estate¹⁵⁷, the speculative land boom had ended. Land prices fell; large estates could not be unloaded; land syndicates issued calls for capital; stunned investors struggled and made difficult choices about which assets to protect. Word spread back to London where, by early 1889, financiers regarded Melbourne with particular suspicion, 'everything being considered as at 'boom' values.'¹⁵⁸

The collapse of the land market affected individuals differently. In 1889 the number of insolvencies shot up, as did the mean value of liabilities (Figure 10). The building trades and land agency businesses were notable victims. But, many speculators held on, hoping for a reversal. As for the affected corporations, until mid-1891, as Boehm put it, 'most urban land-mortgage companies, surprisingly, were able to survive, and largely to conceal their unsound and improper practices.' Individuals, too, kept afloat, running down savings, selling chattels¹⁵⁹, and rescheduling payments. The failure of the land market was a prelude to financial collapse, but that crisis was delayed by survival strategies and the slow divulging of the shrinkage in value of real estate and the extent of losses by banks.

Boehm denoted two phases to the actual collapse: the crisis among the building societies and land banks followed by the crisis among the banks of issue. The failure of the building societies and of the largest land speculators stemmed from the same phenomena: the illiquidity of land and the limited life of desperate ploys of both to stay afloat. In April and May 1893 came the turn of the banks whose reorganisation--like those of the building societies that

¹⁵⁷ Turner, *A History of Victoria*, 292.

¹⁵⁸ UMA, Howden and Lyell Papers, J. McAlister Howden to Thomas Elliston, 17 April 1889. Howden was working to secure British money for several Melbourne ventures.

¹⁵⁹ UMA, J.R. Buxton Pty. Ltd., Real Estate Ledgers, entries for 1894. These show a growth in the auctions of furniture. Also see for example VPRO, VPRS, 765, unit 5, Melbourne Insolvency Court, Insolvency Schedules, 1891-3, file 820-762/72, the insolvency schedule of H.P. Hayward.

survived—froze deposits.¹⁶⁰ Some of the inconvenience of the reduced liquidity of land was transferred to local and British investors in the form of deposit receipts. These traded at discounts and were sometimes used to purchase real property or extinguish mortgage indebtedness.¹⁶¹ These experiments could not end the lock-up of assets which impaired the local economy, and a scheme proposed in 1892 to establish a Deposit Advance Company which would lend against the security of deposit slip never materialised.¹⁶² By 1894 and 1895, the crisis had shaken the vulnerable operators in the property industry out of the city-building process. The number of insolvencies in the building trades and real property businesses during those years reached a 25 year low, but now the layoffs in the public sector, especially the railway, contributed notably to the number of cases. In 1893, only three public servants had become insolvent, however, in 1894 the figure was at least 60 and in 1895 over 50.¹⁶³

From 1893 to 1896, the immediate liquidity crisis in land which had contributed to the suspension of financial institutions became a perplexing liquidity problem for assets disposal firms and reconstructed financial institutions. It is not easy to determine precisely when the building cycle began to stagger out of depression. The thirty year low for Melbourne insolvencies, reached in 1900, potentially illustrates Briggs' assertion that the personality of Melbourne had changed (Figure 10). Risk-takers were rare; and thus so were insolvencies. Caution was in the air and this had implications for real property markets. Until 1900, these remained saturated as far as immediate requirements

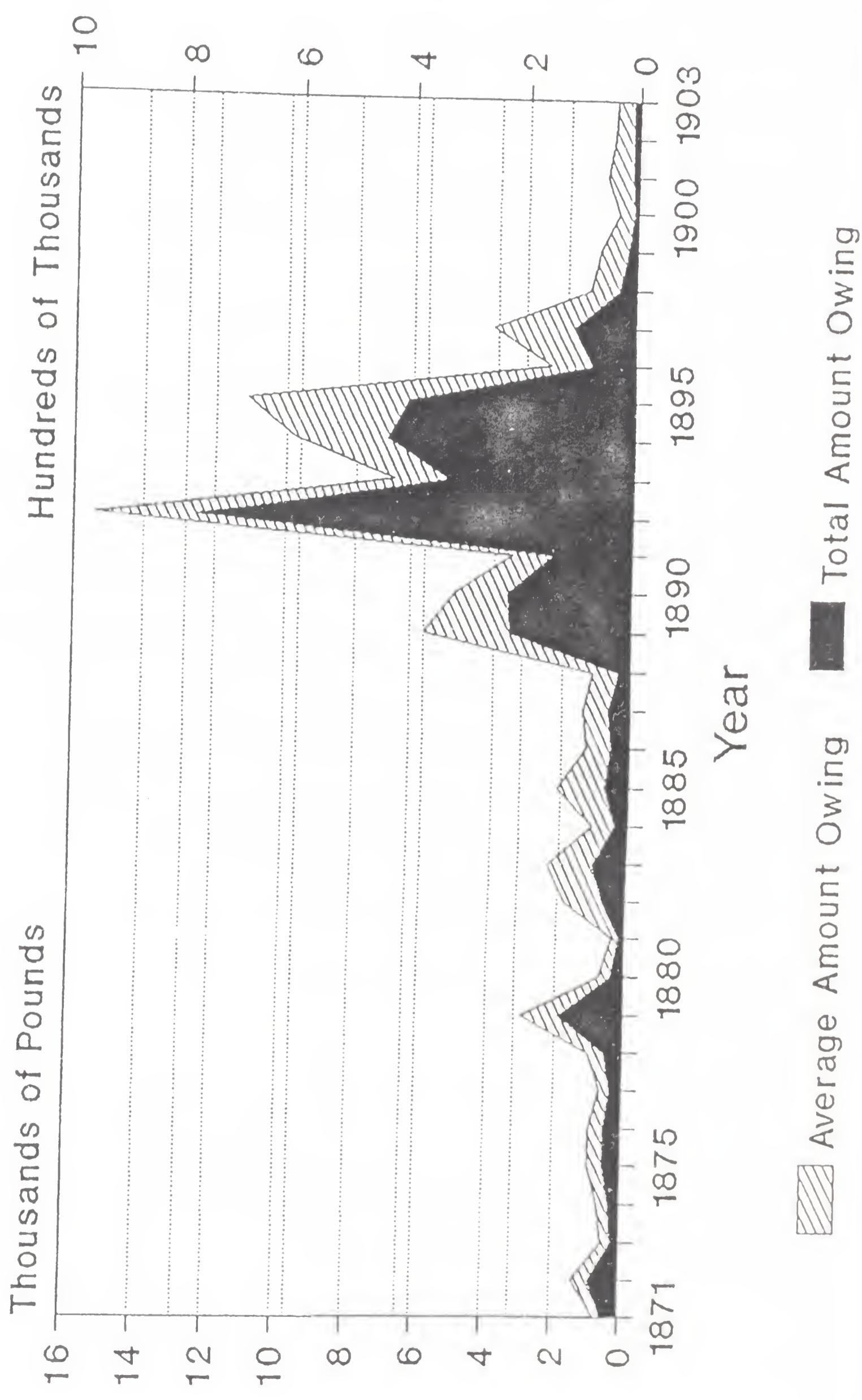
¹⁶⁰ State Library of Victoria, *Australian Financial Gazette*, Australian Banks Official Schemes of Reconstruction (n.p., 1893), 13-56.

¹⁶¹ ANU, 24/1/4, Modern and Permanent Building Society, Minute Books, 18 October 1894; 25 October 1894.

¹⁶² Table Talk, 1 July 1892.

¹⁶³ VPRS 757, vol.5, Register of Insolvents, Melbourne Insolvency Court.

Figure 10 Amounts Owed By Insolvents:
Total and Average per Year, 1871-1903



were concerned. A market for finished houses firmed up in 1900. The MPBS, for example, was able to trim its housing stock. But the market for suburban land remained soft. There was little willingness—or capacity—to act positively regarding the future.¹⁶⁴

A firm recovery in land markets appeared around 1903–05. In 1903, sufficient assets had been disposed of by the Melbourne, Federal, and E&A to permit their merger as The Melbourne Trust. Sale prices reported by its E&A division in 1905 exceeded the revised book values by 40 per cent. By 1908, The Mercantile started to buy out other trusts in liquidation. Buying debentures and making loans, it was behaving like a financial institution rather than an assets disposal firm. So too was the MPBS, much to the annoyance of stock and debenture holders in the UK who howled for a larger distribution of money to release their deposit receipts and debentures. Only after 1900 did the SMBS really resume lending and that was at a comparatively modest level (Figure 2). Disabled by the insolvency of one of its partners in 1892 and stilled for more than a decade by the general absence of demand for real property, the firm of J.R. Buxton made about as many sales in 1906 as in 1888. It almost equalled its 1884 peak in 1910 when it held a number of land auctions (Figure 6).

Public discussions and inquiries about the collapse were plentiful in the mid-1890s, but reformation projects encountered strong, organised, and varied objections from interests wedded to the permissiveness of the 1880s.¹⁶⁵ The royal commission that examined mortgage lending discovered, for example, that not just urban land speculators but farmers also wanted easy money and

¹⁶⁴ R.V. Jackson was correct in arguing that the bank crashes and reconstruction of financial institutions contributed to the economic troubles of Victoria in the 1890s. However, behind these problems was the liquidity problem respecting land. R.V. Jackson, Australian Economic Development in the Nineteenth Century (Canberra: Australian National University, 1977), 148.

¹⁶⁵ The building societies agreed to work to defeat revisions to the Company Act that would prohibit their taking deposits. ANU, 24/1/4, Modern and Permanent Building Society, Minute Books, 10 September 1896.

generous valuations. Attempts to overhaul the company act to prevent assorted deceptions were countered with claims that they would obstruct business.¹⁶⁶

However, insolvency measures were tightened. The Melbourne business and political community attempted fitfully to apply some lessons from the crash.¹⁶⁷ Rarely did the inquiries and debates acknowledge the two inherent investment problems with land—or indeed—all urban space: the slippery constitution of valuation and the liquidity problem. Nearly a century later, in another real estate boom, similar difficulties were disregarded.

¹⁶⁶ The reform proposals included the idea that depositors at financial institutions could force a special audit, that building societies would be prohibited from taking deposits, and that directors could not receive loans from their companies. See Victoria, Parliamentary Debates. Session 1896 (Melbourne: Robert S. Brain, Government Printer, 1897), 123-227; 249-277. For further opposition arguments see Report of the Select Committee of the Legislative Council on the Company Act, *passim*; UMA, Lyell and Howden Papers, The Incorporated Institute of Accountants, Victoria, History, Report of the Council (Melbourne: J.C. Stephens, 1907), 23.

¹⁶⁷ Cannon, The Land Boomers, 199-208.

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